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SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Reference: Small business employment

WEDNESDAY, 24 JULY 2002

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SENATE
EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Wednesday, 24 July 2002

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

Substitute members: Senator Conroy for Senator Carr and Senator Murray for Senator Stott Despoja

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

Senators in attendance: Senators Barnett, George Campbell, Conroy 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 9.00 a.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 broadly on 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; and, secondly, the special needs and circumstances of the sector, particularly in 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 employment which was 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 round table discussions with local business people. 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 the special rights and immunities attached to the parliament, or its members and others, necessary for the discharge of the parliamentary functions without obstruction and fear of prosecution. Any act by any person which 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.

[9.02 a.m.]

ADDISON, Mr Garry John, Senior Taxation Consultant, CPA Australia

BROWN, Mr Ian Bruce, Member, Small Business Centre of Excellence, CPA Australia

HARTCHER, Ms Judith Lorraine, Business Policy Adviser, CPA Australia

CHAIR—I welcome the witnesses from CPA Australia. The committee has before it submission No. 18. Are there any changes that you wish to make to the submission?

Ms Hartcher—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.

Ms Hartcher—Thank you for the opportunity to expand on our submission. CPA Australia represents 97,000 finance, accounting and business professionals, many of whom advise small business, either from within a firm or as an external adviser. In order to ensure our members remain informed on current issues affecting small business, CPA Australia conducts research on relevant issues. CPA's survey of small business is one of our main research tools and covers 600 small firms and 105 CPAs in public practice. The March survey examined employment issues, as our members' small business clients are increasingly seeking not just tax advice, but advice on a range of employment issues. The survey—along with a number of focus groups on employment issues, input from a range of member committees, including the Small Business Centre of Excellence, and feedback from individual members—formed the basis of our submission. The Centre of Excellence, represented today by Ian Brown, brings together its members with experience and skills in the small business field, who work closely with or in small business on a daily basis.

We have come to several conclusions about the barriers to employment, and we suggest some options that could be considered to address some of these concerns. One barrier to increasing employment in small business results from the disparity between small business owners' perceptions and expectations about employment and those of employees. The majority of small businesses are lifestyle businesses with little or no aspirations of growth. These business owners usually have substantial personal and financial investment in the business. They see employees as a major cost to the business and to themselves. As a consequence, they expect their employees to put a similar level of loyalty, commitment and work ethic into the business as they do.

In small business, every employee plays a significant role and has a real impact—positive or negative—on business performance and, therefore, is vitally important. On the other hand, employees want the best return from employment. They may see multitasking as a burden, and

they often do not see small business employment as maximising their potential; it is rarely their first choice.

Much can be done to bridge the gap between employer and employee. Small businesses need to learn to better attract and retain staff to maximise performance; and to articulate to appropriate groups the skills and competencies they value. Employees need to be made aware of the opportunities small businesses present them with that are not available in other employment forms and the need to gain the skills that small businesses seek. Our survey showed that 52 per cent of small businesses saw employee related factors as the greatest barriers to employment. Lack of skills and experience was cited as a concern by 25 per cent of businesses; inability to find motivated people or a good work ethic by 12 per cent; lack of loyalty, trust and reliability by eight per cent; and cost of training by seven per cent.

The face of employment is changing globally, and we need strategies to ensure the regulatory environment is capable of responding to the changes in a socially and economically responsible manner. The employment system is becoming more complex, legalistic and difficult to navigate without access to specialised skills and knowledge. While tax compliance still tops the list of small business concerns, the paperwork associated with employment is increasing. Small business owners—and, to some extent, their advisers—have difficulty distinguishing between employment categories such as casual, part-time and contractor, which puts them at risk of claims against them. Access to information is essential, and the opportunity exists to ensure compliance information is coupled with management information that can add value to a firm. Our submission highlighted some options to improve small business difficulties with employment. These include multichannel delivery of compliance information, bringing together government resources in a ‘virtual department’, better use of advisers as an avenue to small business, the development of cost benefit analysis tools, and education and training strategies. We would be happy to elaborate on these and any other issues.

CHAIR—Let me start by asking a question which relates to our terms of reference, which are to look at the impediments to the growth of employment in small business. Those mainly came out of the claims that you have seen around the place that, if only certain things were done in certain areas, 50,000 new jobs would be created in small business. But you have just said—as indeed was said to us in the Perth hearings—that, in fact, many of these small businesses are lifestyle businesses that do not seek to grow beyond the nature of the business at present. Are we chasing the wrong rat up the wrong spout, in terms of the jobs growth issue? Is there real growth potential in this sector, or are we exploding a myth?

Ms Hartcher—I think about 18 per cent of small businesses have the capacity to grow; closer to 40 per cent or 50 per cent will not grow, no matter what. In our survey, 10 per cent of businesses said that they would not employ—nothing would make them employ and they had no intention of ever employing. So quite a large number of businesses are not going to grow, no matter what you do or how you improve the system. There are others that do have the capacity to grow, and it is always difficult to pick which they are; there are various strategies for doing that, I suppose. For a lot of businesses, their main need in today’s environment is flexibility, which is one of the reasons for the drive towards casuals, contractors and so forth. They cannot afford to employ someone full-time, but they want to be able to put someone on when they do have extra work and then take them off. So, if there was an opportunity to develop flexible

arrangements for small business, I think there would be more employment going in and out of those lifestyle businesses.

CHAIR—I turn to the issue you raised about multichannel mechanisms for getting information to small business. I think it was in Albany that we had a witness who proposed the setting up of a government facility—a government shopfront—where small business people could get information about various government programs and lodge their BAS statements and so forth. What is your feeling about that type of proposition?

Ms Hartcher—It would be an improvement for small businesses to have one point of access. Even though the Internet is a good way to go, small businesses are still looking for a face-to-face relationship. With regard to the multichannel issue, I was not necessarily referring to the need to set up a special facility but to the need to make sure that all the relevant information was available at every potential point of contact. For example, most small businesses know that when they employ someone they have to register for PAYG and so they go to the tax office to register. If they could receive information on their superannuation and WorkCover obligations and so forth at that one point, if they needed it—some people are quite capable of navigating those kinds of things without help—it would be good. Similarly, when they register for WorkCover, it would be good if they could receive all their tax information and so forth, if they request it. At each natural point of contact, if they were able to receive all the information they needed, that would improve their position; a specific facility does not have to be set up.

CHAIR—In your submission, you state:

The CPA Small Business Survey found that for 52 per cent of small businesses, the major barrier to employment was a shortage of skilled, motivated and reliable employees. There is a need for improved links and communication ...

To what extent is there an interrelationship—to your knowledge—between the TAFE colleges and small business, in terms of skills matching?

Ms Hartcher—The TAFE colleges are probably the main providers of small business management skills in Australia. They are not necessarily providing the skills that small businesses need in their future employees—that is more the point, that is more the skills gap that I am referring to. In all the conversations we have with small business about what they are looking for in their employees, the main anecdotal evidence points to initiative—the ability to do everything in the business. Every person in the business is really important to that business. Every person is quite visible, and it is obvious whether the person is doing the right or the wrong thing. Business owners want to be able to turn their backs and find that the person is able to make sensible decisions for the business and so forth. It is that kind of skilling that is a problem.

CHAIR—Small business, in the main, relies on large business to train skilled labour. Small business is a notoriously bad trainer. The Dusseldorf Foundation just recently released a discussion paper where they advocate a return to the training guarantee levy expressly because of the decline in training that has occurred in the skilled labour force over recent years. What do you think the reaction of small business would be to that?

Ms Hartcher—I believe they would think to a large extent that they train the employees and the large businesses poach them after they have trained them and put their investment into them. That is one of the reasons they resent putting money into training. Because it is a lifestyle investment and it is their money and their life that is invested, a lot of small businesses expect a far greater degree of loyalty from their employees than large businesses do. Large businesses tend to say things like, 'If I get two years out of that employee, I am doing well.' Small businesses expect far more commitment from a person. When they lose an employee, they feel that the person has been disloyal to them personally, rather than feeling that the person is pursuing their own career.

Mr Brown—I think you might also find, in a small business context, that a lot of the training is delivered on the job, virtually by having someone at your shoulder. That kind of investment certainly has an impact on time. There is notionally some sort of cost involved, but it is not the sort of cost that would turn up on a training guarantee statement, for example, proving an amount of expenditure. Tracking the cost of that sort of training may well be different to proving the cost of training undertaken through a larger business, where employees are sent off to outside training courses and so on.

CHAIR—To what extent does your knowledge go in this area? I was interested in a comment that was made in the Perth hearings. We had one witness from a cleaning company, and they were a registered training organisation. I asked the people from the training department in Perth what sorts of modules you would put together for cleaners, and they said there was a seven-hour module on how to empty a bin. I have been grappling with this, trying to come to grips with how it would take seven hours to train someone to empty a bin. There may be a logical explanation to it. Is there a preponderance of those sorts of training schemes out there?

Mr Brown—The degree of training I was referring to was courses in, for example, how to use certain pieces of software in an office environment, middle level management skills, supervisory skills and so on—there is a plethora of courses available in that kind of training at the moment.

CHAIR—That type of training I can understand; there is a lot of logic to that. I find it hard to come to grips with why it would take seven hours to teach someone how to up-end a bin; there might be some logic for it. The other issue we discussed in Perth that seems to be critical as far as small business is concerned is the fact that, in the main, small business owners—whether they are self-employed individuals or employers of labour—go into business without any business training or managerial skills. This seems to be a very significant weakness in our system. If you had a burst pipe and you called a plumber, you would want to know that the plumber was qualified to fix the pipe, but you can go along and open a business along the street, employ people, invest \$400,000 or \$500,000 and not have a clue about the basics of running a business. Is this fairly predominant in the people you deal with? Or do you run training courses to assist small business to cope with those types of issues: how to manage cash flow, fee charges et cetera?

Mr Brown—I am a voluntary member of the COE—the Centre of Excellence. My real job is to conduct research into the profitability of small businesses. We do that right throughout Australia, so in the course of the year I am running across a couple of thousand sets of business results for financial performance and so on. That is my background. The flexibility of being

able to open a business is, I think, an important right—to permit somebody to chart their own course, their own destiny, in that way. Certainly it would be beneficial if there was more rigorous management training, in addition to the skills training we all take for granted. Anything that can be done to improve that kind of access or commitment would certainly be an advantage.

CHAIR—But is it a reasonable assessment to say that the vast majority of people in small business—and, I suppose, medium sized businesses too—go into business without any formal training?

Ms Hartcher—Yes, that would be reasonable. I think the last ABS statistics showed that 50 per cent of businesses are under five years old and 15 per cent are under a year old. Only about 40 per cent of the small business owners surveyed had any formal training beyond high school, so it is clear that quite a few are inexperienced and also have had no formal training. They do regularly go into business without any idea of what they are going into. Probably the biggest gap in their training is in the area of financial management skills. That is an area we are working on; we are hoping to put out a national program next year. But just the sheer understanding of whether they are making a profit or not and of how they manage their cash flow is so important, and that is probably what I would see as the most fundamental gap in their training.

CHAIR—The perception of all the people we have heard from so far is that government regulation and red tape has been growing rather than reducing. In fact, some of the people in Perth said to us that their perception was that the black economy was also exploding. They said that there was a substantial growth in the black economy and many legitimate business people were actually being forced into acting illegally because of the sheer weight of government regulations and requirements that they have to confront. Some of them said they were being forced out of running the business and into operating in the back room, doing the paperwork, filling in forms, and whatever else is going on. Certainly, their perception is that there has been a substantial burden placed on them by regulations, and many of them have decided to move out of operating in the real world into operating in the unreal world to keep functioning. As a consequence, there is this explosion in the black economy.

Mr Addison—It is very difficult to make any precise judgment on what is happening with the black economy, because, by its very nature, you cannot define it precisely. I would have thought, though, with the information available now through the new tax system, that they would be able to make some inroads into the black economy. We know that a significant number of the people who have registered for the new tax system were not previously in the system, so it has brought in a lot of new people. It is difficult to counter claims that the black economy has grown, but I would have thought that the new tax system would be making some inroads into it. Certainly one would hope that it would over time, but it is very early days yet. It is always very difficult to make a precise judgment on it.

CHAIR—I found it interesting that the small business people we talked to in Perth were convinced that it was, in fact, growing.

Ms Hartcher—I believe the paperwork is growing, and all the indications that we have had from our members is that more and more businesses are finding that there is more time involved

in compliance, not just in tax. It is also part of the small business culture. Speaking from my own experience of about 15 years ago in a business, small business people regard avoiding doing the hard work and finding a shortcut through things as a badge of honour. It is part of the entrepreneurial culture to find ways around regulations, much as it is to make a profit.

Senator MURRAY—It seems to me that this inquiry is becoming as much—or perhaps more—about productivity as about employment growth. If I go back through the submissions—and I think your submission is a very useful one—they really focus on productivity impediments more than anything else. Training and reducing administrative complexity and compliance obligations—being able to improve the performance of their main task seem to be the underlying theme there. I pick up that theme in your document. I have also become a pessimist about the ability of governments to withdraw from imposing obligations on the business community. We are just an over-governed society—we have federal, state and local government, all with their own requirements. Therefore, the recommendations you have made to make the things they have to do easier and quicker, rather than trying to withdraw them, are much more realistic and practical.

One of the areas you have indicated in your submission is the idea of having a single payment to government and then having things distributed. Essentially, that means putting your information in one package and finding an easy way of paying it. There are two things involved there: the first is the easy accumulation of information to arrive at the calculation necessary, and the second is getting somebody else to do the distributive work. Staggered payments were introduced in part to assist with cash flow. The CPA will recall the days when tax used to be paid once a year. For somebody small—whether they were a household or a business—the burden of finding that money was major, and so we then got the introduction of 12-month spreads and so on. How do you reconcile single payments with timing and cash flow issues? How, practically, would you introduce a system whereby, as much as possible, a single payment regime, which I assume would be accompanied by a single statistical return, would happen?

Ms Hartcher—The advantage of a single payment for small business is that they are able plan, so that when they are working out their cash flow for the year they have certainty about what they will have to pay and there is less opportunity for them to miss different payments. Where we are talking mainly in terms of employment, I do not know whether you could add all their payments into one payment, with tax and everything as well. I guess it would be a similar system to what we are moving towards with tax. If that could be done for employment, so that the calculations for the payment of WorkCover, superannuation and everything else that they have to calculate—some of which are paid monthly, quarterly or annually, depending on which system they are in—could be evened out over the year, they would be certain of what they would be paying.

Mr Brown—The issue is to keep the payments regular, in the same way they are now. So it is not a matter of going back from quarterlies to annual payments, but more one of accumulating the components of those costs. For example, in my firm, we pay superannuation monthly; however, it is possible to pay it quarterly. GST and BAS returns and so on are on a monthly or quarterly basis—and all of them have come via government regulation of some kind. It would mean one single cheque, and then the distribution of funds would happen at the other end.

Senator MURRAY—I think the idea has got great merit, but I wonder who should be responsible for developing it. If you take the example of the GST and the new tax system, the private sector got involved immediately and produced their packages, which attempted to provide easy mechanisms for people to use the new system. And there is an interaction with the tax office and with the software producers as well. To me, it is self-evident that there is a need for such software or systems, but I have not seen anyone in the market—perhaps this is just my ignorance—who is developing or compiling such programs or systems for small business.

Mr Addison—I think the banks have a product where small businesses can put money into a special account—you might have more information on that, Judy. Rather than going into their general business account, the money goes into a special account and each quarter or however often they pay GST—it is usually quarterly for small business—they have the money there and they can pay their GST quite simply.

Ms Hartcher—Most of the larger accounting packages, such as MYOB and Quicken, have employment modules that go onto them for people who are employers. But I am not aware of any that have the function of bringing together all their payments and evening them out and giving a business that kind of assistance. That is partly because tax is all federal tax anyway, but employment is across a lot more jurisdictions and departments and it is a lot more difficult to calculate.

Senator MURRAY—I think there need to be state specific programs. But I am perhaps not being clear enough. I do not think you can progress in this area unless you combine it with statistical returns, because the things which affect small business in administrative compliance are not just the payments—which are a cash issue—but the requirements to produce information. Sometimes that is industry specific—if you are in the customs industry, you have to put in returns relative to that. It seems to me that the accumulation of the information which you need, for statistical purposes, to provide to government, needs to be combined with the collection of physical payments, because the two are often interrelated. Is there a real opportunity for people such as yourselves to provoke market thoughtfulness in this area and produce products like that, which would genuinely advance the productivity area, or is it necessary for government to put in some seed funding to see if that could be developed?

Mr Brown—One of the key issues in there is to actually synchronise or minimise the rate of change of the requirements. The minute any kind of return or any kind of information output is specified into a piece of software, it has to be programmed here and information tracked perhaps up to a year in retrospect, in terms of the current financial year, for example, and then reported in a form perhaps two or three months after the close of the financial year. It is necessary to have the rules specified back six months before the software is released, six months before the year starts, in order to fill in a form that may be required 18 months down the track. So the more information tries to get driven through the software package, the more important it is to actually keep a fairly constant set of outputs at the end, so that people can actually predict and can actually use those features of the software anyway. So there is a practical issue in terms of what you are trying to collect when you need it and over what period of time it needs to be collected in order to make that effective.

Senator MURRAY—But in terms of your recommendation, it seems to me that there is as yet no holistic market package available—one which covers the statistical and the payment

needs of individual businesses. I suppose behind my questioning eventually comes this point: should this committee recommend to the government that they set up some kind of seed funding or research capability to work out the feasibility and practicality of producing such comprehensive and coordinated packages? If you leave it to the market and the market does not provide it, you are left with this problem of complexity of payments and compliance and statistical returns and so on, which all the small businesspeople we are speaking to are complaining about.

Mr Addison—I just want to make a comment here that a lot of statistical information is currently garnered through annual income tax returns. For instance, I understand that the ABS gathers quite a bit of its information through annual income tax returns. That is a problem at the moment. There is a move now emerging—it is being partly sponsored by the ATO, and I think we would support it—to break the nexus between the making of payments through an income tax return and the lodging of information, because the problem is that the more information you have going through a tax return, the more the burden is on small business—and on accountants principally, because accountants are the ones who do most of this work. Small business has to pay, of course, but the accountants do the work, and the more information you are funnelling through an income tax return, the more significant is the compliance burden. I think there could be a move to break that nexus, but I do not know whether that is going against what you were suggesting. I may have misunderstood you.

Senator MURRAY—No, it does not go against it, and the point you make is exactly right. The ABS is charged with producing timely information to contribute to the national accounts data, and that is a very important market and economic service. I used the customs analogy just now deliberately because, in debating the major customs reform bills recently, once again it was apparent that the ABS requirements for important customs data, import-export data and so on, to be provided within a few days after calendar month end was entirely contradictory with the needs for the same sort of data to be provided for a different purpose with the PAYG or the GST returns, which were later in the cycle. I have asked them to examine ways in which they can combine the two returns, and they are doing that. But people in the customs industry have to produce that information, and many of the forwarders, brokers and so on are typically small business, and they have to produce another set later. It is two sets of compliance and two sets of costs. It seems to me that on this productivity front, making things simpler, more coordinated and more consistent has to be a major task. I do not yet know how best to deal with it, whether it should be government, industry or the market that sorts it out.

Ms Hartcher—Can I suggest that, with employment, one of the most difficult bits of form filling is in relation to workers compensation. Small businesses are tending to pass that on to their accountants. They do not do it because it is so complex. A solution would be a government and industry one. If government provided the incentive that, if they accepted one payment and had the facility to distribute it at the government end between state and federal agencies, the market would respond with the products that would allow small businesses to calculate that single monthly payment. But it would need that initial incentive from government to do that.

Senator MURRAY—But you need the same thing on the statistical front, don't you?

Ms Hartcher—Yes.

Senator MURRAY—And it is not just a payment issue.

Ms Hartcher—No. The market would respond to the government saying, ‘We’ll take care of distributing the information and the money if you provide us with it all in one batch.’ There would be solutions to come out of that.

Senator BARNETT—I congratulate you on a very comprehensive and professional submission, with its attached survey. It is very much appreciated. You were talking about the CPA Centre of Excellence. Can you clarify its function and tell us about its charter?

Ms Hartcher—CPA Australia has a number of centres of excellence in areas that are of interest to our members, such as tax, superannuation, audit and ethics, where we have members who have a particular professional standing or interest in the area. They basically operate as a think tank for our members and help keep our members at the forefront of the issues in those specialised areas.

Senator BARNETT—So the centres of excellence would have had some input into a submission like this?

Ms Hartcher—We also have state small business committees that represent members. We have a few special forums as well.

Senator BARNETT—In your submission, you talk about the merits of flexibility in the workplace. We have touched on the terms of reference, as it is an inquiry into small business employment issues. Your submission says that 42 per cent of the small businesses surveyed did not know how to dismiss employees; 62 per cent of small businesses and 81 per cent of CPAs surveyed believed the process involved in dismissing staff is complex; and 30 per cent believed they would always lose unfair dismissal claims under the current legislation. I want to talk about flexibility, as a response to those survey results. How important is flexibility in the workplace in terms of employing more people?

Ms Hartcher—Flexibility is very important for those smaller businesses that do not have the capacity to have full-time employment. They often have peaks and troughs and they need to put people on and take them off. Unfortunately, they often do not understand the difference between permanent part-time, casual and contract employment. They think they have employed someone under particular terms, only to find that they may not have. It is also an awareness thing. What came through fairly strongly in the survey was that fluctuating work patterns, changing shift work and seasonal work all required them to have the ability to put on staff and take them off, depending on the need.

Senator BARNETT—Do you think that lack of flexibility has pushed up the casual staff numbers?

Ms Hartcher—Yes.

Senator BARNETT—What are the main reasons for the lack of flexibility? Does it relate to the industrial relations system and the awards system and the difficulty, as set out in your survey, of terminating employees? Are the unfair dismissal laws part of the lack of flexibility?

Ms Hartcher—They are a part of it; but it is more small business owners' lack of understanding of how they are employing people. As I said, it is possible to have a flexible workplace, if you employ people under the right conditions. If you have a true casual with a short time frame, everybody understands that, but small businesses find that fairly complex. In some of our focus groups, even our own members do not really understand the distinction. They might say, 'I have a part-timer on,' when in fact they might be a casual or a contractor. They are often very confused about the difference between contractors and casuals.

Senator BARNETT—So it is perhaps a misunderstanding on their part about what the reality is?

Ms Hartcher—Yes. They could probably have the flexibility if they understood the process. I guess in a way that is one of the rationales behind our suggestion for a cost-benefit analysis tool. There is plenty of information available on who is who and what is what, but it is not always easy to understand, from the point of view of an employer who is mainly focused on the trade they are doing. It would be good if there were some tool that advisers could have that looked at what their needs were and what their relative costs were and gave them a comparison: say they wanted a person on for a year, it could give them a comparison between putting a person on full-time and putting them on part-time permanent and putting them on as a casual and it could show them the options and explain the risks, saying, 'If you hire this person on this basis, then you have to take this into consideration', and so forth.

Senator BARNETT—And making that available to small business?

Ms Hartcher—Yes.

Senator BARNETT—I will move on to your suggestion regarding the virtual department. There is awareness about the information assistance for the small business entry point and the one stop shop. I am just trying to think how we can help small business. You have mentioned the merits of a seamless, front-end, virtual department. Can you just describe that and maybe flesh it out a little for us?

Mr Brown—I have some material here, which I can distribute after our presentation. In preparing for this, I created a list of about half a dozen different departments, all of which have some kind of input into small business issues—Treasury, the tax office, ASIC, ACCC, Austrade and so on. Each of them has its own policy responsibilities and each has fairly large and cumbersome activities, which would have to be carved up and remelded into some kind of business department, if you were to create a traditional department in that style. The notion here is to create some kind of a web site or electronic interface that leaves all the policy back in the departments that currently have responsibility for that but pulls the content together, by virtue of perhaps introductory paragraphs, hyperlinks to relevant sections of the other departments' web sites and so on. So it is a matter of providing the equivalent of a shopfront, without the faces and desks and so on, via the web site.

Senator BARNETT—And that is not happening at the moment through the Business Entry Point, where they go in and they can work out what licences, permits and approvals are relevant to the establishment and operation of their small business?

Mr Brown—To some extent, I believe, that is happening but more from a state perspective; so I have tried to come up with a list of half a dozen federal departments and bodies.

Senator BARNETT—The Business Entry Point does tap into some of the federal departments—super, ATO and local government; that is their role and function. How do we expand on that? You are saying that that is the way and that we should be expanding that?

Mr Brown—If that kind of infrastructure already exists, by all means tap into what is already there and expand the range to cover the Austrades and so on.

Ms Hartcher—Business Entry Point has been operating for quite some time, but a small business person still cannot look in the phone book and look up small business and find the spot where they need to go for help. It is not easy for them to find the department of industry or the department of this or the department of that, although I must say that the current processes that Business Entry Point are going through with the syndication of their material—we are one of the trial people for that and it has just gone live on our web site—where our members can come through our web site and tap into Business Entry Point is a really good step forward.

Senator BARNETT—Part of our role is to grow business, including home based businesses, which appear to be 60 per cent of all small businesses—we heard in WA that the percentage was roughly that. Perhaps one way to benefit and support those home based businesses is by enabling them to tap into that virtual department. Would you agree with that?

Ms Hartcher—It needs to be clearly available. The other thing is that it needs to be supported by a phone line, because so many businesses do not use the Internet. As I said, they want face-to-face contact or a person to speak to; they need to be able to look in the phone book and see ‘small business’ and find something.

Senator BARNETT—Judy Hartcher and I worked together on the micro business consultative group some years ago. I enjoyed that time and I think the outcome was productive. One of the top issues that came up then for micro business—which are businesses of less than five employees—was networking and having a voice. Has the CPA considered that issue for small business? The importance of giving small business and micro business a voice was certainly raised in our Western Australian hearings. They obviously go through their industry associations or what have you. Is there a better way we can provide micro business or family based businesses or home based businesses a voice?

Ms Hartcher—I do not think I have found one yet—since then. They are such a diverse sector. Micro businesses do not see themselves as members of the broader community of micro business. They see themselves as shopkeepers in Collingwood or hairdressers or home based business people. But we still need to be constantly reinforcing the importance of the sector. Coming back to the training and the employee opportunities, we need to be making more people aware of the value of working in a small business and we need to help small businesses articulate the benefits that people can get, because our community generally does not see employment in small business as a valuable thing. That is not quite the answer; I do not know the answer to that one.

Senator MURRAY—Mr Brown said he was going to provide some information. Could we receive that?

Mr Brown—Yes.

CHAIR—Thank you. Ms Hartcher, it appears one of the critical issues that this committee has to look at in terms of small business is the question of managerial skills and training. It was very much a prominent point of discussion in Western Australia, and coming through in all that you have said here is the fact that a lot of the problems as perceived in small business could actually be alleviated if there were some basic skills training. If we were of a mind to recommend that some mechanism or program be put in place, how do you think it would be best delivered? Would it be best delivered through the TAFE system or through organisations like your own that are basically representing small business, or is there a need for some other form of structure to be set up to deliver that type of training? I am thinking back to the Karpin report and the sorts of issues that were raised in that.

Ms Hartcher—One of the best lessons we got from the introduction of the GST was that the most effective way to provide comprehensive training to the small business sector is to produce core materials and then offer them freely through a multitude of different avenues and channels to the small business community. There is no one perfect way for every person coming into business to learn those skills. For some, TAFE is appropriate. For some, industry associations are more effective. Others want to know neither of those bodies; they might get the information from their local council or from a business enterprise centre or from a local accountant who is running sessions in their own community. Developing the core modules and then disseminating them through as many channels as possible is probably the most appropriate way to go.

CHAIR—I was at a Monash council yesterday. If we had a few more councils like that around the country that would be a good model to use for delivering some of those programs. Are you familiar with the old National Industry Extension Services scheme? Is that a model that would work effectively in this area? That was a proactive model, where agents actively sought out businesses or offered the services, wasn't it?

Ms Hartcher—Yes. It was targeted at growth firms, so it was fairly effective. Most of the businesses that went through that and the earlier AusIndustry programs benefited and were able to improve their productivity and markets.

CHAIR—Substantially. Thank you.

Senator MURRAY—One of the themes that has emerged in this inquiry—and some people have been quite explicit on the record about it—is that where you get regulations and requirements from government overall, be it federal, state or local, which are not regarded as fair or reasonable, small business will ignore them, get around them or just not comply with them. That has the effect of making regulation and law unusable. A typical example is the black economy. If people think that doing forms, providing returns and paying a certain tax rate are unacceptable to them—and ignore the percentage of crooks who do that anyway; I am talking about a bigger group of people—then they will just withdraw from them. One of the real problems that has been expressed to us is that the massive compliance and obligation on small business has this detrimental effect and, as a result, the state governments do not get the revenue

response and the community response that they require. Do you pick this up in all your surveys or is this a hidden thing that people will not talk about—it is kind of anecdotal and people know it goes on?

Ms Hartcher—People do not usually admit to it, so it does not come through our surveys that they do not, but it is generally accepted that if they can avoid regulation, they do.

Senator MURRAY—The difficulty for us as legislators and policy creators is, if you sense or have an instinct that there is a large problem out there but you have no way of measuring it, you cannot react well to it. My instinct, from listening to people like those from the University of New South Wales who specialise in examining the black economy or in hearing from people anecdotally, is that a major issue arising as a consequence of excessive compliance and regulatory and taxation requirements is simply the avoidance of law, and that has a huge cost to government.

Ms Hartcher—Yes, I would agree with that.

Mr Brown—My understanding of that is that to withdraw from the whole set of regulation would virtually mean contracting to become almost an employee without the benefit of a group certificate—in that you start to look at the individual as just a personal generator of income as opposed to being a business which has employees or may employ other people. It is very difficult to understand how a five-person business, for example, could totally withdraw from the whole system. However, one individual working 20 or 30 hours a week may well have the capacity to do so. If that is happening, we are virtually pushing a slice of what might be called the small business community out of business and more towards employment. To my way of thinking there is no sense in running a proper business with several employees and declaring 80 per cent of the revenue on the same form as if you had to declare 100 per cent. As far as I am concerned, if you have to fill in the form, you might as well put in the full number, for any kind of substantial business. However, as I said, if it is just someone doing a part-time business come employment, working maybe 20 hours a week, that may be a different scenario.

Ms Hartcher—Perhaps I could just add to that. I do not think businesses withdraw from the whole system; they just withdraw from the bits they can withdraw from easily. For example, with employment, if there were a need for two or three weeks of work, it would probably be quite common to put people on for cash and not declare it, rather than to comply. That is simply because, in the mind of the business, the cost benefit analysis comes out in favour of doing that. If the paperwork involved were less onerous and the difficulties associated with reporting requirements were fewer then, after having done that analysis, they might come out the other way.

Senator MURRAY—To me, that is a good practical example of information we have been given. For instance, in Western Australia witnesses told us that businesses that are open ‘24-7’, as they have described it, find ways to get around the provisions of the state award because of the cost pressures resulting from having to pay double time and time and a half for work done on weekends and during late hours. If employees are paid cash, you are not putting in for their superannuation or their workers compensation; you are not putting in for all the protective devices that governments have properly put in place for community benefit. You then have to ask whether, when the award was originally being designed, people were aware that the conse-

quence would be that businesspeople and employees would simply go around the system, to the detriment of the community. Take ABS surveys: people know that the ABS cannot and does not check most of those; if they are too difficult to fill in and people do not have the statistical information easily to hand, they will just invent figures and send them off. They will just make the answers up and fill the boxes with rubbish, and the quality you are looking forward to is lost. That is what really lies behind my question. As an organisation I think you are quite deeply in touch with people and very much in touch with business: have you ever been able to identify the scale of this sort of occurrence?

Ms Hartcher—No, we have not been able to identify it, but we do know that it exists. Those of our members who are advising small business are never going to advise them to do that—to avoid their responsibilities. But that kind of behaviour is usually based on the employer's or the businessperson's own assessment of their obligations. It is logical: if it is complex and difficult and you can avoid it, why wouldn't you? They look at the risks.

Senator MURRAY—In my judgment and experience what happens is that accountants, for instance, might know it goes on, but they turn a blind eye to it. People in the town responsible for health and safety and environmental regulation might know that somebody is taking a few shortcuts, but they turn a blind eye to it. In a small country town people might know that on weekends kids are being paid cash to avoid the paying of double time and overtime, but they turn a blind eye to it. They see the benefits of turning a blind eye as being greater than the resultant costs to society or the community.

Ms Hartcher—That is right.

Senator MURRAY—I think this is an issue that has to be addressed in some way, but I have no sense of the scale of it. I just have an accumulation of stories that reach me. Really, organisations like yours are far more likely to be in touch with those issues than are politicians, for instance.

Ms Hartcher—We certainly are aware of it, but we could never measure it because, as I said, people do not own up to it.

Mr Addison—It is a bit like the black economy: you do not know how big it is. I guess people are more likely to meet their tax obligations than they are, perhaps, to avoid tax; they are more likely to comply with the tax law and avoid other regulations, because of the draconian consequences associated with tax evasion. As you know, in the tax area there have been some moves to make things a bit simpler for small business. Those have not always been effective, of course. In the PAYG system you have various options available for small business. They have the option to pay an amount given by the ATO, to pay in instalments and that type of thing. There is the simplified tax system which the government introduced to make it a bit easier for small business, although unfortunately the design of that system has not been as successful as it might have been. So you have some moves in the tax area to make things a bit easier for small business, but I think there is a lot more to be done in that area and, I imagine, in other tax areas as well.

Ms Hartcher—The cost benefit analysis the owner makes has to come out as a benefit to comply.

Senator MURRAY—But my point is that it really needs to be done at every level. For the people sitting around discussing an award, that has to be on their minds; for the people determining an environmental regulation, that has to be on their minds; and so on.

Ms Hartcher—Yes.

Senator BARNETT—I have two other questions. The first is on maternity leave. You mentioned that in your view many small businesses have over time registered a view that they would prefer not to employ women eligible for maternity leave. In the light of this recent debate in the last many months, has that increased? Are small businesses now not employing young women because of the possibility that down the track they might have to pay for maternity leave? Have you noticed any difference there?

Ms Hartcher—I have not seen any increase, but it was certainly a very hotly debated issue when we put the survey together and it is one that a lot of advisers get small business owners coming to them about. It is another thing like the black economy: nobody is going to admit that they did not hire that woman because she was likely to go on maternity leave, but there are plenty of women who have got close to a job and, in competing with a man, have lost out. When it comes down to two equally qualified people, many small businesses are going to choose a man rather than a woman because of that fear. And the big issues with maternity leave for small business employers now are the difficulty of filling that position for 12 months and the lack of certainty about the return to work date, and those issues concern them now. Whether there is paid maternity leave or not, it is not going to change those issues that are on the table at the moment.

Senator BARNETT—We had a witness in Perth who said that the recent debate had exacerbated that concern and as a result, from anecdotal evidence, they noticed that there were fewer people being employed.

Senator MURRAY—They are voting with their feet, in other words.

Ms Hartcher—Yes. It would not surprise me.

Senator BARNETT—My other question is on the cost benefit analysis, and I am very interested in your recommendation. I am trying to work out how it would actually work. You say you would send out the information through industry associations. How do we actually set it up and how does small business access such a cost benefit analysis? I am looking at page 17 of your submission and trying to flesh out a little bit more in my own head how it is going to operate in practice.

Ms Hartcher—It would need to be a software based tool that looked at all the different forms of employment and then looked at, for example, casuals and what the loading was, what the compliance obligations were, super and so forth, and also asked a few questions about the business's expectations, what their growth aspirations were and that kind of thing. Behind the scenes it says, 'Maybe your best option would be to hire permanent part-time with these conditions. These are the on-costs', and so forth. Then it might give three in ranking order. You can use these software tools for a bank loan: you can find out what the best bank loan is for you, what your risk preference is, what your this preference is, what your that preference is.

Senator BARNETT—So would it be part of the virtual department or would it be a software program that people could purchase or whatever?

Ms Hartcher—I would suggest that it be available through as many channels as possible, to encourage people to use it. If there was such a tool available, we would certainly train our members to use that type of thing so that they could provide good advice to their clients.

CHAIR—Thank you, Ms Hartcher, Mr Addison and Mr Brown.

[10.05 a.m.]

CAMBAGE, Ms Julia Inez, National Executive Director, Family Business Australia Ltd

CHAIR—The committee has before it submission No. 62. Are there any changes you wish to make to the submission?

Ms Cambage—No.

CHAIR—The committee prefers 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 Cambage—Family Business Australia works very closely with families in business. A large percentage of those are in small business. Currently the figures show that around 55 per cent of all employees are based in family business, so they are obviously particularly important to rural and regional Australia where, in most instances, they make up probably 96 per cent of all businesses. In future, we would like it if they were included a little more in discussion and creation of policy. They have been bypassed in most instances. We would certainly like to think that in the future family business would be having stronger representation in committees and policy processes.

Senator BARNETT—How many members do you have?

Ms Cambage—Family Business Australia has 2,000 members across Australia. We are a national, not for profit, member based organisation. We are only four years old. We are very particular in the type of work we do. We do not duplicate any industry association groups. We do not do any IR or HR type work. We work specifically at the pointy end of relationships in family business, dealing with things like succession, conflict and that sort of thing.

Senator BARNETT—That is excellent. How long have you been around for now?

Ms Cambage—The organisation has been around for four years, and I have been there for three years.

Senator BARNETT—I appreciate your submission and the work that you do in supporting family businesses. I come from a farm and a family business myself, so I appreciate what you do. Talking about your main concerns regarding the unfair dismissal laws and their complexity and uncertainty, can you flesh out for us why that is and what your views are in that regard.

Ms Cambage—A number of members have expressed concern that unfair dismissal laws are still very complicated. Even though they will try to follow the policy as it exists and they will have a human resource, industrial relations type policy within their organisation, if they have a member of staff who is recalcitrant or who is caught stealing, if they do not follow to the letter

of the law the process, they will be caught up and end up in a tribunal. Quite often in the heat of the moment it can be difficult. If you catch somebody stealing, for example, your first instinct is to say, 'You're gone.' They need to be able to step back and make decisions a little bit better. But they are also saying that they find it quite difficult. If you employ somebody and find in three months time that they are not right, you can still end up at the tribunal; given that, people are often hesitant to employ. They think very seriously about putting that person on. One of the suggestions that has been made is that the period of time that you can hold somebody as temporary be extended. At the moment you can put somebody on for three months and say, 'This is your review period.' They are saying that six months or 12 months might be better.

Senator BARNETT—Obviously some of your members have been in receipt of a log of claims from time to time, and you have some concerns about that process. Can you express those concerns to us and describe them.

Ms Cambage—The process they have described is one where they rarely win if they go to tribunal. They basically feel that if there is a claim against them they are going to lose. The common perception among our members is that, no matter what, even if they have tried and followed the process within their organisation, they are going to lose. If they only have seven staff, for example, they probably have not got room to have somebody there who is a specialist HR-IR type person, so they are relying on training their management and having them familiar with the policy and process. All good business should have policy and process, but sometimes it does not get followed completely to the letter of the law. What they believe is that, even with good intentions about following that policy, if they end up at tribunal they are going to lose.

Senator BARNETT—Most of your members would be small business or micro business?

Ms Cambage—No, not at all. Our members' businesses range in size from small to large, including some of the largest businesses in Australia. For example, the Smorgons are members, but we also have a number of small and, in particular, medium sized enterprises.

Senator BARNETT—Sure, but most of them would be small?

Senator CONROY—Do you have the Morans in your organisation?

Ms Cambage—No, they are not members. But they are a good story.

Senator CONROY—They could use your organisation, could they?

Ms Cambage—Yes, they could.

CHAIR—They could use family counselling probably.

Ms Cambage—They could use a lot of organisations!

Senator BARNETT—I was just asking: would most of them be smaller businesses?

Ms Cambage—No. About 40 per cent of our membership is made up of smaller businesses and the rest are larger businesses.

Senator BARNETT—What is your definition of small business?

Ms Cambage—We use the same definitions for small business as they do at ABS.

Senator BARNETT—Regarding these logs of claims that we have been discussing, for the small business members that you have, would many of them—or most of them—have union employees?

Ms Cambage—Some do. Manufacturing businesses in particular will still have union involvement, and that is not necessarily affected by size.

Senator BARNETT—What proportion of your members would be using workplace agreements, or arrangements such as profit sharing?

Ms Cambage—I have not actually asked, so I could not tell you.

Senator BARNETT—On the topic of red tape, I do not know if you or your members use the Business Entry Point? If so, do you have recommendations on how we can improve that type of process, in terms of helping small business cut through the red tape?

Ms Cambage—We use Business Entry Point and we have had a look at it. One of the interesting things that came up through our discussions with our members in the smaller area was that the only thing that they could see as being of benefit to them would be if government became a customer of theirs, as opposed to them being customers of government. A number of different companies said to us, ‘How many small businesses have government as their customer? How many times do government contracts go to small business?’ I think that is probably a fair comment from them. If we have a look, there are probably very few, because government prefers to deal with larger companies that can prove long-term relationships and supply and that sort of thing. So they have a tendency to deal with larger companies. That is a big generalisation, I know, but if you have a look at your policy I think you will find that you have a tendency to deal with larger businesses. So they were talking of consortiums, perhaps, and also an opportunity to bid for components.

On the red tape, what we found when we talked to our members was that they are reasonably good about it. They are working through it. Sometimes it takes 15 hours or whatever to do their BAS statements, but they have found that that has assisted them with their business growth as well because they have spent more time looking at what they are doing and how they are doing it. So that has actually been a good part of their growth process. They do not really complain about the amount of time that it takes them to collect on behalf of the government. Whilst it does take time, they are not really saying, ‘Look, it is too arduous.’ What they are saying about red tape is in particular about the levels of red tape. They would prefer there to be one or two levels as opposed to three levels. They are saying that dealing with the federal government is okay; they are saying they could probably lose some of the taxes they are dealing with when dealing with state government; with local government, they are saying, ‘Hmm, what’s that all

about?' Really, most of the comment was directed towards local government being possibly irrelevant at this point.

Senator BARNETT—In what sense?

Ms Cambage—In the sense that they could not see much benefit in return for rates and things like that, and so they were saying that perhaps it was time for one tier of government to be amalgamated and possibly moved on. It was the number of levels of red tape that they worked through.

Senator BARNETT—Okay. Thank you.

Senator MURRAY—The last question picked up on an area which interested me. We have not had that much discussion about local government in the hearings, and yet local government seems to me to be very important, particularly at start up—signage, licences, approvals and so on. We have had quite a bit of comment about home based businesses and the difficulties between shires and councils on that, but all local councils that I have seen do provide annual budgets to ratepayers and show where money is spent and so on and so forth, and the amenities and everything. It seems somewhat extreme to say that most business felt this was a complete waste of taxpayer money.

Ms Cambage—In the group that we worked with, that was basically their comment. I think it is more connected to the fact that they deal with three levels of government; they are saying that perhaps it might be possible to amalgamate some of those services so that there is less bureaucracy for them to deal with. That was just the general comment.

Senator MURRAY—I am sympathetic to the fact that we are overgoverned, but that is a constitutional issue. If you take a place like Tasmania, it has fewer people than a reasonable sized city, and it has three layers of government, and the third layer, I think, has 27 local councils. However, I am not sure anyone has yet worked out how else you deal with geographically dispersed communities. The issue of response times, though, is very important. As I understand small business and their interaction with councils, they want two things. They want consistency in terms of obligations between councils, so that licences and planning requirements are the same and there is common understanding. Secondly, they want a rapid turnaround. However, they are often disappointed in both. On the second one, do you think that governments, either federal or state, depending on where the constitutional responsibility lies, should actually legislate that local governments are required to turn around decisions within a certain time frame?

Ms Cambage—I think that would certainly help. Some of the comment has been about the fact that there is a slowness in response time. If there was a designated period in which that response was made, I am sure people would find it easier to move on to the next level.

Senator MURRAY—The consequence of that would be that, if the council did not make a decision within a certain time frame, the approval would be automatically granted.

Ms Cambage—That sounds good to me.

Senator MURRAY—That would provide the carrot. Is that a practical way in which we could proceed?

Ms Cambage—I am not certain how local government would feel about it automatically being approved if it was not done in a particular time, but I certainly think that businesses would find that most appealing.

Senator MURRAY—The other point concerning local government is the issue of home based businesses. Different shires and councils have either accommodated that trend very well or they have not. Do your members get involved in home based business or do you not reflect that sector?

Ms Cambage—We do not reflect that sector particularly. The majority of our businesses probably have moved on from home at this point. But, for example, if you are a plumber and your wife does your books, you could argue that part of your business is home based because she is probably doing them at home. They are still considered to be a family business. So in one sense, yes, we do reflect that sector, but it does not make up a huge percentage of our membership.

Senator MURRAY—Turning to another issue, you mentioned the log of claims process in your submission. Once again, that is constitutionally derived. The union movement feels that the only way it can activate the agreement making process is to ensure that there is a claim. Even if that claim is extraordinary and extreme in ambit, it then requires the Industrial Relations Commission to get involved. So that is a consequence of something else. Speaking to union people, I gather that they recognise its weaknesses; from an employer's point of view, it can be frightening and extremely aggravating. Do you have any solutions to that problem?

Ms Cambage—I do not know that any business wants to take anybody's constitutional rights away, but I think they want to be considered in the process as well. The example I gave from the motor car industry, where somebody purchased a plant out of receivership and was immediately handed a log of claims, seems unreasonable to me. That person had just rescued a number of jobs, and the first thing the employees did was ask for a pay rise. I do not know whether that is normal practice but, if that were my business, it would seem unfair to me, in the first instance. To know that he lost and that now, one year down the track, he is about to look at another log of claims—not based on performance but on time—seems to me to be unusual as well. I think that there needs to be some level of consideration for the business owner and operator and some consideration of where the business is in context and how it is moving forward, as opposed to, 'Okay, guess what? It's the 4th of July and time for a pay rise.' That needs to be considered in there as well. For example, that business would possibly have failed—I do not know that for a fact—in the hands of the receivers at that point, had this purchaser not come along.

Senator CONROY—Your submission refers to the tendering process. Perhaps you could flesh out your concept of how either the government or business groups could assist in pulling together small businesses into a tendering process. Can you point us to any experience you may have had of a successful tendering process—how it was pulled together and how it was coordinated?

Ms Cambage—Before I took this job, I worked in regional development in a place called Wauchope, which is on the mid-north coast of New South Wales. It is a very small, old timber town that was in decline, with failing industry—and there was not a lot of industry there. We worked with a business there and found a tender to replace all the prison doors in New South Wales. The owner of that business was actually a steel merchant and could not build the doors, but we found her some partners to whom she could supply the steel; they could manufacture the doors and meet the criteria. So there is probably room for some industry groups who, if they had copies of tenders, could draw consortiums together. There are examples of teams of excellence that state governments and regional development bodies and federal government regional development bodies have tried to put together. If industry groups could be encouraged to develop those so that they could become buying or selling consortiums, I think that would be reasonably attractive.

Senator CONROY—Do you think that is possible? I once worked for an employer group: the membership was diverse, and you would be pulling a consortium together to bid against your fellow members. Why would fellow members subsidise an organisation that was bidding against them for work? I guess that is the most fundamental question. Is it practical for business industry groups to do this? You said that you were a regional development officer: does this need to be done by a council officer or a departmental officer?

Ms Cambage—It could be possibly a more regional type group, and I think it is a useful tool for regional development also. The materials may be there, but a lot of the time you have small businesses that cannot access the tender. They look at it and say, ‘It’s too big for me; I can’t do it,’ or ‘I can’t do that bit of it,’ whereas it might help if they had somebody who was possibly either a state or federal government regional development type person. Perhaps it could be done through an ACC. I know they have business development people now, and perhaps it is a part of their role to bring that kind of group together within their region to make bids.

Senator CONROY—Supposing a huge government tender went out, these development officers, who presumably would be in touch with all—or as many as possible—of the local firms, could say, ‘There are three or four bits there that we could pull together to tender for.’ It is just that I see an inherent problem with industry groups, as I said. You need a neutral player to pull together a consortium.

Ms Cambage—Sure.

Senator CONROY—That may be the mechanism, rather than industry groups.

Ms Cambage—Yes, it is probably a much better mechanism.

CHAIR—Within your organisation, do you provide any managerial skills training for your small business people?

Ms Cambage—The training and educational packages we offer are very much reflective of the needs of family business. We do not do generic type management training; we do strategy based workshops for things like succession development. If their succession plan is at the forefront of what they are working on, those business skills will come into that as well. We certainly have some strong partnerships with some of the universities around the country; their

programs are offered through us. We also have a family business program that we offer through Monash and Bond.

CHAIR—Do you have any idea of the percentage of small businesses in your association that have undertaken managerial skills training?

Ms Cabbage—No, we have never asked.

CHAIR—You do not think that is an important issue for small business?

Ms Cabbage—I think it is an important issue not only for small business but for all business to have appropriate qualifications. As an organisation, our focus is on those issues that are particular to family business, such as conflict and succession. Generic managerial training has not been something that we have approached, simply because so many other groups and industry bodies deliver those types of things and we particularly do not want to compete with the kind of work that they do. Ours is very specialised.

CHAIR—Thank you, Ms Cabbage. Thank you for your submission.

Proceedings suspended from 10.27 a.m. to 10.47 a.m.

BURROW, Ms Sharan, President, Australian Council of Trade Unions**RUBINSTEIN, Ms Linda, Senior Industrial Officer, Australian Council of Trade Unions**

CHAIR—I welcome the witnesses from the Australian Council of Trade Unions. The committee has before it submission No. 15. Are there any changes that need to be made to the submission?

Ms Rubinstein—No.

CHAIR—I now invite you to make a brief opening statement.

Ms Burrow—Our submission is short and succinct but to the point. We recognise that small business is a significant area of employment. If you take away the 45 per cent of all private sector non-agricultural small businesses which do not employ any staff, then you have around 527,800 small businesses that employ about 2.1 million people. Clearly it is a significant area of employment related activity. To the extent that we have concerns about the issues in small business industrially, you only have to look at the fact that the outcomes in terms of wages are much smaller than large businesses. There is a high prevalence of individual agreements and award dependence. The awards are now so out of date in the majority of industries in terms of wage rates that they are almost totally irrelevant. The individual agreements in small business worry us because those employers pay considerably less than employers in large businesses. Employees in small businesses are paid around 20 per cent less than other employees under individual agreements and about 34 per cent less than those employed in firms that have between 100 and 499 employees.

We were intrigued to see some of the major questions posed in the terms of reference. If there were magic answers to the question of growth in small business, we would like to know what they are as well. But in the context of the recent public debate—and I suppose that is how you would characterise it—around unfair dismissal, we did some random sample polling of our own. While it was a little cheeky, we chose Higgins, Hindmarsh and Warringah and asked small businesses at random what they felt were the determinants of small business employment decisions.

When asked what the main reason was, an overwhelming 79 per cent stated that it was because of insufficient work, or need for additional staff, or outlook for expansion of the business. There were some other reasons given, like the lack of availability of adequately qualified employees—that is, skills shortages. That is a serious issue for business generally, but for small business in particular, it would appear—particularly sourcing employees with appropriate skills. That goes to the heart of public policy issues around the funding of education.

When asked what efficiency changes they would like to make, respondents strongly identified issues such as: the need to improve or change their current infrastructure, such as buildings and/or machinery and equipment; technology; productivity; quality of staff; staffing numbers; additional training of staff; and some workplace relations issues such as penalty rates or lack of

an enterprise agreement in their workplace. But an overwhelming 45 per cent of all respondents suggested that the GST was their main concern. A further 22 per cent nominated other policies, of their choosing, which ranged from inadequate funding of education and training through to industry regulation, competition policy and the like.

The issue is that there was a very small percentage—only some 8 per cent—who, when questioned, actually indicated that unfair dismissal was a problem. When you probe further, a lot of that was because of the public debate, given that there were very few businesses who had had any experience with unfair dismissal. I think there are broader issues—which no doubt others with greater expertise in this area would raise—about access to capital; about the lack of some state regulation, in particular around rental increases; and about the vulnerability of businesses who find it difficult to seek the security, whether economic or to do with infrastructure, that larger businesses may be able to access more readily. Linda Rubinstein is our resident expert on industrial legislation. If you want to ask questions in more depth on the issue of unfair dismissal, then we are able to answer them, but of course we made a very detailed submission to the Senate inquiry on that subject.

I understand that there is a raft of regulations and government policies which discriminate in favour of small business, but there is some concern about whether there is a bandwidth, or a line in the sand, that discourages businesses from expanding. I do not pretend that that is our area of expertise. While we are more than willing to work with small business in regard to expansion, particularly in reference to fair wages and conditions, nevertheless it is an area that I think is extraordinarily complex, incredibly diverse and not easy to define. We will leave it at that.

CHAIR—Thank you. Ms Rubinstein, do you want to add anything?

Ms Rubinstein—No, unless there are questions about the unfair dismissal legislation in particular.

Senator BARNETT—Thank you for your submission this morning. Do you know the proportion of union members in small business in Australia?

Ms Rubinstein—Not off the top of my head, but I think we would concede that the proportion of union membership in small business is substantially lower than it is in larger businesses.

Senator BARNETT—Of your members and their members throughout the country, what proportion would be involved in working in a small business?

Ms Rubinstein—The answer is much the same as the previous one. A higher proportion will work in larger businesses because large businesses employ more people. I think you would add to that the fact that small business is significantly less likely to be unionised and that is another reason why the employers of small business need the protection of the law, including adequate enforcement and inspectorial services to ensure that they are not exploited.

Senator BARNETT—That is an observation that you are making. I am wondering on what you base that observation, or what first-hand knowledge you have of small business employment practices?

Ms Rubinstein—I have substantial first-hand knowledge because for more than a decade I was employed by the union that was then called the liquor trades union, which covered employees in hotels and restaurants, many of them being very small indeed. The minister sometimes describes small business like a family. As you know, perhaps, you are much more likely to be murdered or sexually assaulted, or otherwise assaulted, by members of your family than by anybody else. That is why we have family courts to deal with this, although we do have aggrieved people from time to time who can perhaps point to individual instances of injustice. Small business is a bit like that as well. You get examples of exploitation and of really terrible treatment in small business which you would often not find in larger businesses that have managers who are better trained and more experienced. Certainly it was my observation, when comparing the employment practices of large employers at the time—like the breweries, the big five-star hotels or the big caterers—with the small employers, that it was the employees of small business who required the greatest protection.

Ms Burrow—There are a range of small business enterprises—Linda has touched on hospitality and the services sector in part—that are highly unionised, for example, most of our child-care centres are. There are lots of examples like that. We are currently analysing the ABS data, which shows that there has been a growth of union membership emerging in small business areas which is heartening for us. But there are absolute industry areas where we have much greater expertise than others, and we do not pretend otherwise.

Senator BARNETT—Based on Ms Rubinstein's comments and the first five paragraphs of your submission where you attempt to highlight the less significant role, from your point of view, of small business in the Australian economy by taking out—and I am using your words—the 'sole proprietors' and looking at the contribution of medium and large business, is there any reason you are taking that perspective to highlight the less significant role of small business in the Australian economy?

Ms Burrow—It is not to demean the role of small business. We absolutely accept and have pointed out the employment base and how significant it is. But if there is a frustration for us it is the orthodoxy currently in the community that somehow all small businesses are in dire straits and should be given specialist treatment and exempted from everything, including the industrial relations law in terms of decent treatment of working people. So that is a frustration for us. It is predictable, but I will give you an example. While we have supported the exemption of small business, if you took the model of paid maternity leave that we put forward in the last two weeks—which was an affordable 14 weeks from government budgets—we said, by way of example, that, in order to provide 100 per cent income replacement for almost 90 per cent of women based on average weekly earnings, it would cost about 67c a week. Small business came out in outrage, shock and horror: why should small business be asked to pay? If you take the 20-employees scenario, you are talking about a cost of \$10, maybe \$15 a week. And I would say to you that any small business that cannot afford \$15 a week should not be trading.

If there is frustration it is about the fact that there is this huge orthodoxy of concern about small business, which we would argue is not based on evidence. There are pockets of small business—particularly emerging industries, start-up companies and the like—that we think should get special treatment. Incubation and support for emerging business are very important. But I think the frustration simply goes to the fact that there is now this broad brush—and good luck to them; they have won the public debate in part. But, for government policy, you are going

to have to drill down and say, 'Let's look at this diversity called small business, and see where the need is, and isn't, for positive discrimination or exception from a range of public policy and legal requirements.'

Senator BARNETT—You are saying to us that you would welcome and support anywhere up to \$15 a week extra for small business, and that that should be justified?

Ms Burrow—No, I did not say that at all.

Senator BARNETT—Can you clarify your statement then, please?

Ms Burrow—I was giving you an example of where we said that small business should be exempt from paid maternity leave. However, while that is our position—and it is affordable for government and large business to carry the day for very little money as an impost on business—I was simply giving you an example of where small business cried, 'Shock! Horror!' Even if we had included them, a levy inclusive of small business would have cost them less than \$15 a week to provide women with that security. I am saying that they still cried, 'Shock! Horror! We can't afford this!' I put to you that that is an example only. It is not our position that small business should pay; it is an example of where I think small business itself is going to have decreasingly less respect if it keeps crying foul on every piece of involvement in legal or public policy requirements.

Senator BARNETT—You are putting to me and to this committee that you are just saying that they can afford it. That is what you just said; I am using your words. I put it to you that they cannot afford one extra dollar, because of the burden that is imposed on them in terms of a whole range of concerns—whether they be red tape or what have you. We have heard right around the country that maternity leave is a major concern for small business.

CHAIR—Senator Barnett, can we come back to asking questions.

Ms Burrow—Senator, I have no will to make this—

CHAIR—Order! Can we come back to asking questions of the witnesses, and refrain from engaging in a debate.

Senator BARNETT—Sure.

Ms Burrow—I have no will to make this an adversarial debate on paid maternity leave. I am sorry I even raised it as an example.

Senator BARNETT—But you have raised it as an example, and I feel that it is important to respond. In your fourth paragraph, you say:

... Australia which indeed employ the largest proportion of wage and salary earners, despite the countless concessions made to small businesses.

It seems that this is like a tirade; that you are starting a war on small business. Is that what is happening here this morning?

Ms Burrow—Not at all. In fact, our public position—and we will stand by it—is support for exemption from paid maternity leave for small business. So you should be saying, ‘That is terrific.’

Senator BARNETT—Can you provide any other examples—apart from payroll tax and what you have just told me—of the ‘countless concessions for small business’, to use your words?

Ms Burrow—I suppose the—

Senator BARNETT—Can you provide a list of examples of the ‘countless concessions’ for us?

Senator CONROY—Payroll tax.

Ms Burrow—The other major issue for us is of course the debate around unfair dismissal, but there are payroll tax exemptions—

Senator BARNETT—I said payroll tax; apart from payroll tax and what you have just mentioned there in relation to maternity leave. Can you provide us with a full list of the ‘countless concessions’, to use your words?

Senator CONROY—You can take it on notice and come back to us.

Ms Burrow—I do not even want to do that, because I said I do not profess—

Senator BARNETT—I am asking you the question.

Ms Burrow—I do not profess to be an expert. What I am trying to suggest—

Senator BARNETT—It is in your submission.

CHAIR—Order! You have asked the question; let the witness answer it.

Senator MURRAY—I raise a point of order through the chair. I do not understand why the tone lifts to this level of aggression as soon as the witness is a union representative. Surely we need to explore these issues. I am uncomfortable with altering the way in which the hearing has been conducted and moving into an aggressive tone.

Senator BARNETT—They have; but we have received a submission, and I am referring to the words in the submission. It talks about the ‘countless concessions’.

Senator MURRAY—But the witnesses are not aggressive, nor is their submission aggressive.

Senator BARNETT—I am referring to the words in the submission.

Senator MURRAY—You are unnecessarily raising the tension.

Senator BARNETT—I have asked a question.

CHAIR—Order, Senator Barnett.

Ms Burrow—I will just try again, Senator—

Senator CONROY—He is from Tasmania; we have to give him some latitude.

CHAIR—Order! Are you finished with your point of order, Senator Murray?

Senator MURRAY—Yes. My point of order is that I would like the tone and the nature of this hearing to return to what they have been.

CHAIR—I have asked Senator Barnett to come back to asking questions of the witnesses rather than engaging in debate. If that occurs, then we can keep the tone of the inquiry at a civil level.

Senator BARNETT—I have asked a question about the fourth paragraph of the submission, not to mention the tone of the submission from the ACTU. I have asked a question about the ‘countless concessions made to small businesses’, written quite clearly in black and white in the fourth paragraph.

CHAIR—I thought Ms Burrow answered your question. She may not have answered it the way you wanted it answered, but she answered the question.

Senator BARNETT—Has she? Let us ask Ms Burrow if she has answered the question.

Ms Burrow—I think I have. If you want us to come back with a list of concessions, we can do that. I simply pointed out that you should not read too much into it. It is not a war against small business; on the contrary. In the main, in many debates, we are on the side of small business because we recognise that it is a significant area of employment. But there is a concern from us that the orthodoxy, as I expressed it, has now grown up that every time a public provision, requirement or legal requirement is put on the table for debate small businesses say either, ‘We cannot afford it,’ or ‘We should be exempt.’ My point is that it is such a diverse sector that that may well be true for some of the groups that make up small business, but it is increasingly an orthodoxy that is unhelpful for law makers like yourself or for people who make public policy. We should be disaggregating the nature and detail of small business more accurately.

Ms Rubinstein—Perhaps I could just add to that with three examples of concessions. Firstly, there is the exemption from redundancy pay, which applies to the employers of fewer than 15 employees. One could add to that the exemption in the Workplace Relations Act from the requirement to consult about redundancies if fewer than 15 employees are being made redundant. That could also apply to larger businesses but would apply, one would think, to all small businesses. Secondly, the exemption for payment of superannuation to employees who have earned

less than \$450 in a month. Large businesses might well employ people on that basis, but I think that you will find that disproportionately it would be small business that would employ people for a few hours a week at a busy period or something like that. Thirdly, there are a range of government programs which are there to assist start-up businesses or small businesses, whether it is through provision of training or provision of assistance with developing business plans or other types of methods, all of which could be characterised as concessions. Of course, they can be—

Senator BARNETT—That was to be my question: you can see that as a concession?

Ms Rubinstein—It is a concession in the sense that a concession means giving preferential treatment, whether it is for a good reason or a bad reason, I suppose. One can argue about whether special assistance to small business is warranted. It is argued by some economists that it has a distorting effect on the economy, and that argument was put forward in a staff working paper from the Productivity Commission and is outlined in the earlier submission that we made to this committee's legislation committee, rather than the references committee. There is an economic argument about whether or not, in terms of development of employment, that is warranted. It makes the point, for example, that some small businesses are small because they have started up, and some small businesses are simply disaggregated larger businesses. Some small businesses are failed large businesses that have become small businesses because they—

Senator CONROY—Like the Tasmanian Liberal Party.

CHAIR—Order!

Ms Rubinstein—have failed. Ms Burrow made the point about looking at what we actually mean when we talk about small business. We all have an image that small business is somebody who has set up their little business and they are struggling away, but it is not always as simple as that. Many small businesses, of course, are highly profitable—for example, consultants. They are often very small micro-businesses with three people, but they could be turning over very large incomes indeed, and I am sure we could all point to people in that category—some of whom, of course, would be former colleagues of yours.

CHAIR—Such as in your profession.

Ms Rubinstein—So a concession just simply means some kind of preferential treatment. It can be a negative concession, which means you do not have to pay something, or it can be a positive concession, which means we will give you something. They are all concessions.

Senator BARNETT—What I am really asking is: does the ACTU support those concessions? You have mentioned that it distorts the economy or distorts the environment in which people are then operating.

Ms Burrow—It very much depends on the issue, Senator Barnett.

Senator BARNETT—So it depends on the concession?

Ms Burrow—I suggest that, if you have a think about it, the difference between small businesses who are really struggling but the economy needs them to survive and grow and small

businesses that are, in fact, very wealthy is quite a good place to start in the disaggregation. There are other areas also—for example, women and small business. I would argue that there is an incredible set of systemic discriminatory pieces, whether it is provision of finance or whatever it might be, that make it very tough for the fastest growing area of small business, which is women proprietors. What we are suggesting is that, when you are making public policy or when you are thinking about laws, you disaggregate this thing called small business and have a look at what it really means.

Ms Rubinstein—Can I just add one more point. The ACTU would also distinguish between who was providing those concessions. If the concessions are effectively provided by employees who do not receive superannuation or who do not receive redundancy pay, then we do not support that because we do not think that is fair. If there is a public policy reason to support small business, as in many cases there is, then it ought to be publicly supported from the entire community. It is quite wrong to expect some of the lowest paid and most vulnerable employees to subsidise small business through their rights and entitlements.

Senator BARNETT—So, using your words, there are some concessions you would support and there are some that you would not. You have mentioned the redundancy issue; are there any others that you do not support?

Ms Burrow—I think we have made our point, Senator.

Senator CONROY—Are you aware of any business groups that do not support the myriad of concessions to small business and who argue that, by drawing a line at 20 employees, you actually are creating a distortion? Business groups have put to me in recent months that, in actual fact, creating an artificial distinction between a business with 19 employees and one with 21 employees is not a helpful process. It makes the argument a lot more complex and provides a lot more red tape and regulation. Have you met any business groups like that?

Ms Rubinstein—I have seen those comments. I cannot remember who made them.

Senator CONROY—These are significant, large business groups in this country.

Ms Burrow—You would have to ask business groups, but I suspect that you will find exactly what we have just said: the definition of small business is unhelpful given the diversity in small business. Whether it is the income from small business earnings, whether it is the nature of small business, whether they are part of a supply chain, whether they are emerging and incubation businesses, it is so complex that the small business tag—drawing a line under 20 employees—is not helpful. From our perspective, of course, business groups know well that we say you cannot divide human and labour rights simply because you might employ less than 20 people.

Senator MURRAY—One of the issues which seems to have become clear to me, at least, over this hearing has been the issue of productivity. It seems to me that much of the discussion is really about productivity: training to improve performance and trying to reduce compliance costs so people can focus on the purpose of the business. Those compliance costs are regarded as very considerable: health and safety and environmental regulations, various laws—tax laws,

in particular, and tax requirements—statistical information requirements and, of course, industrial relations requirements.

With respect to industrial relations, which is your specific area of responsibility, one of the suggestions put to us in Western Australia was that, whilst they were very supportive of awards and agreement making—and I do not think there is a political party anywhere that is opposed to that process—some of the elements that are traditionally within awards and agreements are archaic. The example they gave us was late hours or weekend time-and-a-half or double-time costs which, in a typical country town, when you are running a 24 x 7 sort of business, they say just makes that period uneconomic for them. They suggested that a 38-hour or a 40-hour week, or even a 35-hour week in some sectors, should apply regardless of the time of day or of the weekend position. In other words, you do your 35, 38 or 40 hours and after that you move into double time and overtime. But if those 35, 38 or 40 hours happen to be from Thursday to Monday, so be it. How do you react to that as a proposition: more flexibility in these things?

Ms Burrow—You would not be surprised at our answer. We are running a very serious debate about work and family and balancing work and family commitments. While I am sure that those arguments are heartfelt by some small business proprietors, it is no easy thing to ask people to give up their weekends, which are family time, or to work at night and therefore not be with their families, or to be denied the capacity to participate in the community in activities at night or on the weekend for no extra penalty payment. I also think that a lot of those small businesses do work 24 x 7 hours. People pay extra for the product because they know they are accessing that product outside of normal hours when the big retail shops or services are not necessarily available. So I understand the dilemma. It has been a debate for decades. I do not think it is going to go away easily, but I do suggest to people that, where people do work outside of the traditional work hours, it is not as easy as just saying, ‘You should simply cop ordinary time earnings.’

Senator MURRAY—Most people I know are sympathetic to that view. Regardless of political party, they recognise the value of quality time with families and so on. The problem was that these same small business witnesses—if I recall their evidence correctly—said, ‘They know the consequences.’ They said that they—not necessarily the witnesses but small businesses in general—get around it. They simply pay people cash and they are not on the books so they do not get the super and they do not get the workers compensation and so forth, and it contributes to the black economy. So it has a counterproductive effect. It does not meet the needs you have just expressed but also the end result is that the community does not get the things that laws and awards and so on are there to deal with.

Ms Burrow—Compounded by the GST, Senator.

Senator MURRAY—Yes, I understand that. You can give me a little whack on the way past if you wish. But that is the difficulty politicians and policy makers face: you have a good intent but it might have a bad consequence. How do we deal with that sort of problem?

Ms Rubinstein—There are a few ways that it is being dealt with. What a number of businesses have done, including in the hospitality industry, which I know most about, is that they have instituted a standard hourly rate across nights, weekends and weekdays. But that does not mean that they get the Monday rate across those hours. They have essentially averaged the

rates. The reason they have done that is that there is sometimes a perceived unfairness: 'Fred doesn't mind working on weekends. In fact, it is his second job, so why should he get penalty rates,' and that kind of idea. So that is one reason for it. It also helps with planning and rostering and all of that kind of thing. But that is not simply an effort to reduce wage costs.

The second thing is that there has been evidence that you do need to pay. I remember this from when there was a big inquiry into penalty rates when I was at the Liquor Trades Union. Somebody like the Industry Commission or an economic consultancy did this work to show that you do have to pay more on weekends to get staff. Certainly, anecdotally, I can see that from people I know. Young people who work on weekends are only giving up their Saturday nights, but they do need an extra incentive to do that. They may well be paid in cash by some employers, but what can you do about it? In Victoria that would be very common. Under the Victorian system—the non-federal award system—there are no penalty rates, so people are being paid this little bit extra in cash or whatever it is to get them to work on those weekends. You do not need to show that in your books because it is not legally enforceable.

The third thing is that the types of businesses that are 24 x 7 have different penalty rate structures from the standard Monday to Friday businesses, which Senator Campbell would know about. In those businesses, when somebody works on a weekend it is always their sixth day of work so they get overtime. The system that you are suggesting would not work in that way. The services areas—hospitality, public transport and so on—have substantially lower penalty rates that apply on weekends. An example is retail, which used to have double time on Sundays. The only thing is that nobody ever got double time on Sundays because shops were not allowed to open then, but now that they have opened—I think the rates are time and a quarter on Saturday and time and a half on Sunday—the rates are substantially less than what people think they are.

Senator BARNETT—You mean the big shops that are open on Sunday.

Ms Rubinstein—I might be older than you, Senator Barnett, but I recall when the only shops in Victoria that could open on Sundays were milk bars, and people were going to jail for opening hardware shops.

Senator BARNETT—I think you must be older than me.

Ms Rubinstein—I am substantially older, I suspect.

Senator CONROY—They do not open on Sunday in Tasmania.

Ms Rubinstein—I remember when they did not have cinemas on Sunday. I should just say, on that penalty rate issue, that the thing that used to upset members in the hospitality industry most of all was working on Christmas Day. Even though they got double time and even though they would tend to get a lot of tips—obviously, from guilty people—they hated it, and yet they had to work. The trend to eat out on Christmas Day—Christmas Day does not worry me; I was a bus conductor once and happily worked on Christmas Day—does affect Christians or people who have a tradition of Christmas Day. I do not how you compensate them for that, but generally it is not voluntary in the hospitality industry nor in other areas, and they are not properly compensated.

CHAIR—There are no more questions. Thank you, Ms Burrows and Ms Rubinstein.

[11.23 a.m.]

GABOGRECAN, Ms Barbara, Managing Director, Micro Business Network

VITNELL, Ms Sue, Managing Director, Newcomers Network

CHAIR—Welcome. The committee has before it submission No. 65. Are there any changes you wish to make to the submission?

Ms Gabogrecan—No.

CHAIR—I invite you to make a brief opening statement.

Ms Gabogrecan—Thank you. First of all, I should make it quite clear that the types of businesses that the Micro Business Network helps are the ones that employ less than five people. As you would be aware, that is 88 per cent of all small businesses in Australia. More importantly, we have to also understand that 67 per cent of all small businesses in Australia work from a home base and that they are very much intertwined with family situations. They are owner-operators and often they are people who are simply trying to be self-employed.

On the issue of employment, I think there are three or four areas that government should be aware of. One is in reference to the unfair dismissal law. I am aware that many people who are asked whether the law is a problem for them when they do employ someone say that it is not. But I am not aware whether anyone has asked the ones who have not employed anybody why they do not employ someone. I constantly have people say to me, 'I won't employ because of the unfair dismissal.' That is their sole reason for non-employment. There is a massive percentage of owner-operators, the one-man shows, and there is, I believe, a growth of nine per cent per annum, and that is something to seriously be considered if we are looking at employment overall.

Another issue that needs to be addressed—and again I have seen no evidence of it—is the fact that many of these people are employing themselves. They call themselves a business but they do not truly see themselves as a business. They see themselves as employing themselves. There is lots of support and help to get more employees into the work force but I have seen no evidence of support to self-employ rather than go on the dole or whatever. I thought it might be worth looking at, for start-up businesses, something like a HECS scheme where they are able to access some start-up funds and pay them back once the business gets on its feet and running.

I also think in the home based business sector there are local government regulations—but in Victoria it happens to be state government, and I understand it is the only state government that has regulations referring to home based business—that inhibit the growth of employment. In Victoria, you are only allowed to employ one, and you may ask for a licence to employ two; however, in other areas of Australia you are not allowed to employ any. That varies from council to council. In two studies I have looked at—one was *Frontrunners or backyarders*, which was done in the Gold Coast and the ACT, and the other was the home based business study run by the City of Casey in Victoria—the average employment is 2.7, which indicates that

there is underground employment taking place that the government knows nothing about and nobody wants to know anything about. Therefore regulations as they stand at the moment are encouraging people to break the law, in my opinion. I was asked recently by other government bodies, including the opposition here in Victoria, 'But what can you do about it?' I believe one of the issues for employment is to take away the regulation and bring in a system whereby the employer can register, probably via the Internet or some other means, how many they are employing at a certain period of time, because it is very obvious that this group employ when they are busy. They do not have full-time employees. They are very much up and down, roller-coaster: 'When we are busy we need some; when we are not we do not need any'. I am in exactly that position now as a micro business: I need four or five people for about a month and a half and I will possibly need one after that. Therefore, why can't I register with my council that I have five people needed for the next month and a half, keep it above board and stop me from feeling as though I am going to break the law if I am going to go ahead? If you give people the choice to break the law or survive, I can tell you which one they are going to do.

With taxation, we hear a lot about GST. As you may know, I sit on two committees with the Taxation Office: one is the ATO Task Force and Cash Economy and the other is the ATO Commissioner's Consultative Group. In both those cases I have been asked to look at ways the Taxation department can perhaps reward the micro sector for a job done well. One of the things we have to understand is that even though these ordinary people do not have to pay GST they do have to collect it. The compliance cost—especially in time, not even in money—is quite heavy for them. I do not think there is a better way to reward people that do a job for government than to pay them, even if it is just a percentage off what they have to pay for collecting the GST anyway.

The ATO are out there saying, 'We are here to help you,' and to their credit I think that is coming across in some areas. I have just returned from a week in rural Victoria. In nearly every township I was in—I was in five towns presenting a seminar—I would have at least one person say to me, 'When the ATO came out and sat with me to help me, they were fantastic.' I have heard nothing but positive comments when they actually helped one-on-one. But people still feel very annoyed about ringing up and being on hold for half an hour and then as soon as someone answers the phone it drops out. There are lots of those support areas that need helping.

There are two issues on the alienation of personal service tax income—even though there have been some changes there—and a lot of people including MBN pushed hard, lobbied hard, to get those changes so you can now sell for credit. One issue is not being able to claim for a spouse. If you run your own little business and you have a spouse answering the phone, running to the bank, collecting from the post office, the ATO say, 'You can't claim for that spouse because, after all, they would probably do that for you anyway—they love you.' The point is that if I have to go and employ someone to do it for me I do have to pay. If the problem is how do we know it is being done truthfully, surely the answer is as simple as what you do with a private car. You have a logbook. You simply log in what you have done and at the end of the month you work out what its value would be if it was a paid employee. Home based business office versus commercial property office is another issue that I think is very hard to stomach. I think it is disgraceful if you are being disadvantaged because you have a business at home, an office at home, through these alienation of personal service income regulations.

Superannuation actually does impede employment. Often employees or contractors—whichever the employer in the micro business uses—earn more money and have more entitlements than the employer themselves do. They get fairly aggressive about the thought of having to pay somebody superannuation when they cannot afford it themselves. So they work it around: ‘Well, we won’t employ; we will use family.’ Perhaps superannuation could be based on a turnover—how much they actually pay—because it is out of the question for many, particularly home based, businesses.

Local governments have a real problem to look at here. I know some that are trying to do well and others that do not seem to have any knowledge of how important the growth of home based business is. They are often ignorant. They are uninterested. Their legislation is outdated and definitely the legislation is discriminatory. It is beyond me how you can say to a home based business in a regulatory sense, ‘You can have a business but you can’t have a client knock on the door, but your next-door neighbour can have a party every day of the week and people calling to their house.’ You know what will happen? The client will come and say they are not a client. Therefore public liability insurance comes into play. Let us say they fall over and break their leg coming up the steps. Are you saying while you are ministering to them, ‘Remember you are not a business person; you just came to visit me’? I think there is a whole raft of outdated areas here that could be changed. I think the federal government’s role in this would be to encourage local governments to perhaps work with all other levels of government to look at a cultural change so that we are not saying ‘resident versus home based business’. Most councils I know say to me, ‘If we get a complaint from a resident then we act. If we don’t, we just sort of ignore it.’ Why should that be? I know of one instance where the resident was annoyed with the 15-year-old son next door revving up his motorbike on a Sunday morning and could not get them to stop it, so he dobbed the people in for having a home based business which they had not registered, and they were closed down. So we are encouraging this nastiness between neighbours because of regulations that are not enforceable anyway.

My last point is about Internet growth. To me the two are completely hand in hand, with home based business using the Internet and other technology quite extensively in comparison to other small business. There is an issue at the moment of business names not being allowed by right to be registered as domain names. My understanding initially was that if you wanted a domain name you had to prove you had it as a business name, but that does not seem to work in reverse: you may have it as a business name and you may not be able to get it as a domain name. I am not an expert in this area, but in my submission you will see that I have provided an appendix from one person who has given me a fair bit of information and has approached federal government on this issue. It seems to me that the legislation as it stands may not fully understand that this is probably the only intellectual property a microbusiness or a home based business can own. They cannot afford to trademark and have patents and major publicity about logos et cetera, but they do feel they own their business name and they therefore feel as though they should own their domain name. If we are trying to encourage this sector to develop business to business with e-commerce, that is an issue that must be looked at very carefully and very quickly before it gets out of hand.

CHAIR—You said in your initial opening remarks that a lot of people come to you saying that they would employ more people if it were not for the unfair dismissal laws. We have had two surveys presented to us in this hearing. One is from the CPA, and it says that unfair dismissal legislation was mentioned as a primary issue by only five per cent of businesses.

Surveys that were undertaken by the ACTU prior to the last election are fairly consistent with that: they say that seven per cent nominated unfair dismissal as a primary issue. Why do you think there is such a discrepancy between your anecdotal evidence and the surveys conducted by these two groups, the findings of which are consistent with the findings of other surveys that have been done by other groups on small business?

Senator BARNETT—Mr Chair, can I take a point of order on that, please?

CHAIR—What is the point of order?

Senator BARNETT—You said the findings were consistent with those of other groups.

CHAIR—Yes, they are consistent with other surveys that have been conducted by other groups.

Senator BARNETT—I am not aware of the consistency.

CHAIR—There is a range of them.

Senator BARNETT—I would dispute that.

CHAIR—There is no point of order. I am asking a question. I am drawing the witness's attention to two specific surveys that have been placed before this committee—

Senator BARNETT—Okay, fine.

CHAIR—which are not inconsistent with other surveys which have been published in the daily press. They have been published publicly.

Senator BARNETT—I believe they are inconsistent.

CHAIR—I am happy to get you the references to them, if you are concerned.

Senator BARNETT—Okay, thank you.

CHAIR—If you have not read them, then I suggest there is a deficiency in your reading material, because they have been made public.

Ms Gabogrecan—I am happy to answer your question simplistically because, as you say, my evidence is anecdotal, although I do have some people that have been prepared to put it in writing to me. My understanding—and I may be wrong—is that most of the people surveyed have been people who already employ. As I have pointed out, I am not aware of any surveys where it states that they have actually asked people, 'Why have you not employed anybody?' That was my opening statement: my understanding is that the surveys that have been done have been asking people who actually do employ. I think it is also fairly widely known that the huge step in business is employing one person. It is not employing two, three, four or five. I would suggest that that might be an answer to your question, but I do not know.

CHAIR—We have had a lot of evidence put before us in Perth and here again this morning to say that there are a lot of small businesses who actually do not want to employ; they do not seek to grow beyond their current size, and so it may not even be an issue for those businesses.

Ms Gabogrecan—It may not be. But it is an issue in the cases where I have spoken to them—the City of Casey study, for instance, where we had focus groups and I was the person who organised the people, let us say; I did not do the marketing analysis. You would say, ‘When your business grows to a point, what will you do?’, and they would say either, ‘We won’t grow,’ or, ‘We will go to a bigger house,’ or something simple like that. You would go a little bit further, and they would say, ‘Well, I don’t want to employ; I don’t want the problems of employment,’ and so then you would say, ‘What problems are you talking about?’ So we were not putting words in their mouth. We were not saying, ‘Is unfair dismissal a problem?’ We would say, ‘What problems are you talking about?’, and they would say things like: superannuation, unfair dismissal—every time, that was one of the issues that was mentioned—and other things like, ‘I don’t believe anyone could do the job as well as me, so I won’t employ.’ But, every time, unfair dismissal was one of the answers. It is anecdotal. I do agree with you that the only way I could prove exactly what I am saying is if I could encourage two or three hundred people to give me that in writing—which I could try to do if you want me to.

CHAIR—No, I am not asking you to. I am just making the point that these are two questionnaires that have been carried out which do not demonstrate the same answers as the anecdotal evidence that you have presented to the committee this morning.

Ms Gabogrecan—Are you able to check for me with any of these reports you have whether or not they did ask people who did not employ at all? I personally would like to know that, if that is the case.

Senator CONROY—They are public submissions.

CHAIR—They are public submissions. You can get them. The CPA submission also has the questionnaire attached to it. You can go and look at it yourself.

Ms Vitnell—I could speak on behalf of our kindergarten, because we had to find a new kindergarten teacher. As an ex recruitment consultant, it took me 13 weeks to find a teacher. I was horrified that it took me that long to do it. We had difficulties dealing with agencies and so on and so forth. I guess when I talk to small businesses, what I see are people who are generally risk averse and who do not have a lot of time—if you look at the person having to go and find somebody. I am supposed to be running my own business, and I do this role at the kindergarten in a voluntary capacity. For me to take 13 weeks out of my life to find a kindergarten teacher was not what I expected when I became the president. So you can imagine that, if you found somebody that did not work out and you had trained them and everything else, for a micro business recruiting somebody would be a huge cost. If you have systems in place and you have recruited people before, I imagine it would be quite simple and easy to add another one in; you could ensure they fitted in within three months and get rid of them if necessary. You would probably be aware of some of those rules and regulations. But, just from the dealings I have had, I can imagine that as a first timer you would be risk averse and you would not want to spend the time.

CHAIR—Is your argument, Ms Vitnell, really supporting the position that the ACTU put to us about the need perhaps to disaggregate this small business sector more, and to separate out some of the business on the basis of the nature of the business and the category it is in and the problems they confront? There seem to be different problems confronting different business groupings within the small business sector.

Ms Vitnell—There are. But as an individual I do not like to be singled out. I would like to see a better educational process, so that people are aware of options and get that support at the local level. I am always pushing for more support at the local level. Could you imagine a collective of businesses getting together and saying, for instance, ‘We need some staff people this month,’ so I could chuff some people over to Barbara for her four weeks and then we could chuff people over there? Having a pool and looking at more economies of scale type processes would be far better than segregating us even further and just giving us access to those resources in a user friendly format. If you really get it to the local level then you do not have to drive for three hours to get this information; you do not have to advertise in the *Age*; you do not have to call on any other resources. A case in point relates to our kindergarten example: we have spoken to our local member, and our local member is organising a breakfast with two representatives from each kindergarten in the electorate, and then we will all work together on strategies to stop this happening in the future. I think that is a really progressive way of utilising existing resources, rather than just labelling it as another sector and tailoring something different and having a different process and so on and so forth. To me, I just don’t like being singled out that way.

Ms Gabogrecan—I think it is also about recognising the difference. Once you have recognised it you are more likely to understand it and, therefore, you are more likely to put things into place that would help. I do not think I have the lady’s name, but you had one submission by a single person, Elizabeth somebody or other, from Western Australia, and I found quite a few discrepancies in what she had to say. She is just an individual coming out and saying, ‘Well, we don’t want to have help with business plans, to have help with mentoring et cetera. We want hard, cold cash. We want help that way.’ That is where I come in with the HECS scheme. But, down further, she also said, ‘Because we earn so little money we actually are getting some hard, cold cash as support for low-income earners.’ So I found it a bit argumentative there. But I do think it is that recognition factor that is so important.

CHAIR—To what extent have the persons within your small business or microbusiness network undertaken managerial skills training?

Ms Gabogrecan—If you were to ask me whether those people would prefer to use their money in paying the telephone bill or going out to eat in a restaurant, I could tell you that they would probably save up to pay the telephone bill. From the question you have just asked me, I would suggest—and I say this in absolute open faith—that perhaps you do not really understand that it is about survival for a lot of these businesses. It is not about whether they have managerial skills; it is about whether they can survive and make an income with which to pay the bills. It is once you get past that level that you start to talk about such things as managerial skills. I think the ACTU made this clear as well: quite a lot of microbusinesses earn a lot of money; quite a lot do not earn very much at all and yet, rather than go on the dole, they try and have a go. I think, before they get to that level, they must also have an understanding of their level of achievement in their own personal business growth. So, to answer your question succinctly: yes, people at that level do have training; they do want to understand perhaps a lot

more about how to manage negotiating, employing and government regulations. But they still contrast all of that against how much time they have? So sometimes I think time is more the issue than money.

CHAIR—But where has that training been undertaken by those who have undertaken it?

Ms Gabogrecan—The majority of training that I am aware of falls into two categories. One I call informal: they attend seminars, workshops and conferences; they purchase books and read business magazines, et cetera. The other is where an actual course is taken at a TAFE, for instance. I am not aware of a lot happening, but I think there is a growing feel about what is available on the Internet. There is discussion out there about what is available on the Internet that can be taken advantage of—in other words, the distance learning type concept. That is because, ‘When all the kids are in bed and my husband is watching the TV, I can go to the Internet and learn something.’

CHAIR—Do you have figures on the failure rate of small businesses in your network?

Ms Gabogrecan—No. But I can tell you that recently we did a mail-out to 10,000 on our database and around 300 dead letters were returned. I thought that was rather good, considering. To help you understand, we have around 20,000 on our database but, of those, only about 4,000 or 5,000 would be in close contact. With others it might be once a year, and so we do not really know a lot about them. They have just come to a seminar, sent us a business card or asked a question, and that is how we have got their contact details. It is with those people that every now and then you find you get the returned letter. But, interestingly, I received two yesterday and I know that both of them are in business; they have just changed their address and not told me. I know this because I know both of them. So, of all of those that were returned, I do not know how many have gone out of business and how many have changed addresses and not told me.

CHAIR—Would solving the problems you have raised in relation to home based businesses be facilitated by councils adopting a standard set of rules for dealing with home based business? If that would be of help, should responsibility for oversight of those rules lie with state or federal government?

Ms Gabogrecan—I can answer that probably in three areas. One is, as I suggested earlier, that I am concerned about the rules, the regulations. Regulations should be kept for real emergency type things, such as hazardous chemicals and the excessive noise that results from building motor cars et cetera. That can fall into regulations. I think definitely that the state government, with councils, should be overseeing that. It works well in Victoria, and so I do not know why it would not in other states. Twice I have been asked to attend public meetings at the Beaudesert Council in Queensland where people with baseball bats have got out of cars. At one stage it was quite scary. That occurred because of local councils changing the rules and, as a consequence, people became very aggressive.

But I suggest that you have another series, not of regulations and rules but of recommendations, so that there is leeway for movement. We had an example here in Victoria recently where a travel agent operated from a very big home on their own property—a 10-room home with acreage. They had five computers in the house and a person at each computer, and they all had

their cars off the street, on the property behind the house. A neighbour dobbed them in, and they were closed down. With today's changes in the way business is done, nobody from the street even knew there was a business there; it was all Internet based. You could say, 'If they were big enough to have five workers, they should have been in external offices anyway.' But one of the reasons I work from a home base is that I have a semi-invalid mother and if I did not work from home she would have to be in a nursing home. So there are other reasons than just the size of my business. I have already got four computers networked. I do not have a lounge; I have sold that; I do not have room for the lounge. The point is: that is my choice. I think that we have a problem when government starts to impinge on things that do not affect anyone but yourself, your house and the people who come in to work with you. I think it is a cultural problem more than anything else.

CHAIR—You are not suggesting that you would bypass regulations like occupational health and safety or workers compensation, those types of things?

Ms Gabogrecan—No. If you go to occupational health and safety, I have been in touch with them to see what is available for home based business. I asked if they were running seminars and whether they had a seminar that we could run to our people, based on their material. They do not have any material for home based business.

Ms Vitnell—I would like to make a comment too, because I think I understand where you are coming from with the concept. A particular scheme that has been very successful is the NEIS program, which is designed for unemployed people to get the assistance and support they need to set up their businesses. A number of people have told me that they have made out that they are unemployed to be able to qualify for that, because they recognise that they need the training. I guess if you want to improve the success rate of small businesses, you do need to educate them in proper management techniques and you need them to understand how to work with government, local people and the media et cetera. The NEIS program is an excellent way of doing that. A number of people I have spoken to have been very disappointed that they did not qualify for NEIS; they did a lot of preparation and it was a great scheme. That is an example of a federal scheme that really does work.

Another example of a scheme that does work is Business Boroondara. The City of Boroondara has an excellent program designed to help businesses in the area. I made the tragic mistake of sending the details of one of their events to a few people I knew, because I felt it was relevant to them. I got an email back from Boroondara saying, 'I am sorry, but we cannot accommodate anybody who is not in our council area. This is an initiative designed just for our council area.' So that is an example of a really great scheme. It proved that it worked because I could easily sell it on to other businesses that were interested in that forum for networking with other individual businesses. Going back to your question, there does need to be more training of home based businesses; they do need to understand how to work with the rules and regulations. But you have to accept that they are individuals working from home by choice. In many cases they chose a lifestyle option over working for an employer, but let us make it easier for them and support them so that they can generate good for the Australian economy.

CHAIR—Thank you for that, Ms Vitnell. I have one final question, Ms Gabogrecan. We have had a lot of evidence before the committee, particularly in the hearings in Western Australia, about the growth of the black economy.

Ms Gabogrecan—Do you mean the cash economy?

CHAIR—The cash economy or black economy, however you want to define it. We have had evidence from witnesses saying that a lot of it is generated because of the regulations, the rules and the amount of red tape and paperwork that businesses have to do—that it is just not worth it and the easiest way is to pay cash in hand. To what extent does that occur in your sector, in those areas which are employing or even where they are not employing?

Ms Gabogrecan—The ATO task force I am on is looking at just that. It was an interesting exercise because at the first meeting I was there for nearly half a day before I realised that their definition of micro is different from the rest of government and society's definition. We—that is government and the sector—say that micro employs less than five. The ATO says they earn less than two million so we are talking about two completely different kettles of fish in some cases.

The general feeling of the ATO group was that maybe the cash economy is being fostered in particular industries, such as the building industry, more than in others. My experience, to be quite honest, is that I barely know of anybody who is doing it business to business. However, business to consumer is a different thing altogether. If a consumer asks you to sell them something, you might give them a cheaper quote if the GST does not come into it—that is happening—but as far as business to business goes, I am not aware of anything in the areas of consultants and the people within our network.

I was interviewed yesterday for the *Sun Herald*—they were doing an article on SOHO. I asked them what SOHO meant to them—I always thought small office home office meant the office in the home but they said, 'No, small office means an office out in a commercial property, then there is the home office and we have combined the two together.' They were saying to me that there is a range of issues with this sector and they felt this was an area where they would find some examples of the cash economy. I am sure you have examples. Generally speaking, there is a massive variety of businesses within our network. Just last year we had 20 winners of awards and every single one was from a different industry. That was not by choice; we did not segregate them; it just happened that they ranged from milking venomous snakes, to needle craft, to consultants, to bed and breakfast—the range is enormous. I am not aware of great evidence of the cash economy in business to business.

CHAIR—There is very strong evidence in Western Australia, maybe it is unique to Western Australia, but I do not think there was one person who gave evidence who was in the construction industry.

Ms Gabogrecan—That is interesting.

CHAIR—They were mainly in the retail and hospitality sectors.

Ms Gabogrecan—As a home based business, I would be just as inclined to rope someone in on a volunteer basis, initially, rather than give cash.

Senator MURRAY—I was amused by the milking of venomous snakes!

Ms Gabogrecan—Can I quickly tell you about it; it was on Channel 2 last Sunday. We gave this award to this person three years ago so we recognised the importance of what he was doing three years before it went public. It was not just that he was milking snakes; he then injected that venom into a sheep or a horse, bled the animal and then the blood was taken to a lab and the antivenom was made. He and his wife had a thing about blood so, as an experiment, he decided to inject chooks. They found that they could extract the antibodies out of the yoke of the egg. That is the sort of business you get when you are a home based or a micro business.

Senator MURRAY—Governments introduced compulsory superannuation because not enough members of the community were making provision for their future. There is a danger with many micro businesses and, indeed, small businesses that if their businesses fail then not putting superannuation aside may mean that eventually they end up on the social security pension system anyway and, in that sense, they are a greater cost to future Australia than they might otherwise have been.

Ms Gabogrecan—Absolutely.

Senator MURRAY—Do you think it would be an area to look at for governments to force micro businesses to set aside money for superannuation at, say, the nine per cent rate or would you disagree with that?

Ms Gabogrecan—You could do it; you would just close thousands and thousands of micro businesses. You actually have financial people out there advising them to put their spare money, if they have any, into paying off their home mortgage or into better establishing their business than into superannuation, because they can use that as collateral to grow their business et cetera. I think people think that if their business does well then that is their future, but as you are suggesting—and I think you are right—what happens is that the businesses either just keep surviving or close altogether. So they do not well. It is a risk and you are perfectly right: people do not have their own superannuation at this level. I think if you tried to force them, they would close their business before they would do that. I know some people who will not employ because of superannuation. They think that the guy they are paying money to should be putting aside the money towards his future out of his wages; why should the employer have to look after the employee any more than the employee have to look after the employer—which is a new way of looking at things. Imagine if every employee had to do something special for their boss.

Ms Vitnell—You could put a time limit on it, though. You could say, ‘After you have been in business for three years, you are expected to be able to contribute to super.’

Senator MURRAY—Yes, there are a few threshold points. I think a transitional period makes sense. What would you think of a threshold above a certain amount of declared earnings when people would be obliged to enter the superannuation system?

Ms Gabogrecan—Do you mean what percentage?

Senator MURRAY—I can see that somebody whose small business generates \$10,000 and they supplement their living standards through the welfare system—

Ms Gabogrecan—I am not talking about those people.

Senator MURRAY—No, but I am just using an example that makes it very clear. Imposing superannuation on them would be stupid; but, for instance, for somebody who is generating \$35,000 or \$40,000, you may have a threshold. How do you react to that sort of thing?

Ms Gabogrecan—Yes, if you had a threshold of, say, \$40,000 and then you paid a percentage for anything over that. I would not disagree with that, but I wonder if people would just be very innovative and clever with the way they did their bookwork.

Senator MURRAY—I am sure. The problem is that this inquiry and other inquiries have been faced with a strong view that nine per cent is inadequate for the future anyway; a strong view that employees, not just employers, should be obliged to contribute—but of course that just adds to employment cost anyway; and a strong view that everybody should be in the system if they can be. These are issues we have to address. I stress that I do not have my own mind made up, but if there are hundreds of thousands of micro businesses that may not be in the superannuation system and a significant percentage were to end up as a burden on the pension system later on, it is an issue we might need to address.

Ms Gabogrecan—I think, as Sue mentioned earlier, this sector is pretty well risk averse, they do not like taking risks. Business itself is the risk, if you like. Men, notoriously—and I do not mean to be gender biased, but it is a fact—will mortgage their house to put money into running a business. Women will not. They will just take longer and try to earn enough to put in and to put in to build up the business. So they do not have that capital to get started and, as you know, many businesses do not even start to make a profit for three years at least.

Senator MURRAY—Which makes the transitional period idea interesting. Thank you for that. The other thing I want to discuss with you is cause and effect. I think the alienation of services income legislation was a clear example of that. Much of the evidence around seems to indicate that as a result of what people feel is excessive regulation or excessive burden they find ways to get around that—going off and being a home based business instead of an employee is a consequence. Then the legislators say, ‘Hang on, a lot of these people are effectively employees. Let’s bring them back into the system’ and you get this complicated act arising. But the cause was the sense of there being too great a burden through issues about discriminating in the workplace, about industrial relations legislation, about superannuation, about workers compensation and payroll tax—a whole litany. Do you think there are areas in the formal employment structure where we could start to make laws simpler, easier and better harmonised to reduce that impetus to get out of the system?

Ms Vitnell—Kindergarten Parents Victoria represents a lot of kindergartens and childcare centres and they have come up with a group employer model where basically somebody would administer it for a group of kindergartens and so on. Effective strategies like that, where some of responsibility and work is taken off the small business while giving them access to all those resources, would be great. On the other hand, I have heard—and these are all anecdotes not statistically proven—from a very successful business, which had been in operation for over 15 years with \$1 million worth of stock, very high turnover and run very successfully, saying about VECCI that when they ring VECCI, they get transferred through three different people and that is just a hassle.

Whatever model you come up with needs to be easy to use. If you have some sort of fee management that covers these things, that makes it simple and easy for business to use, then you will get a pretty high uptake. I would feel that I was adhering to all the rules and regulations and at the same time that I was supported by some sort of group scheme that a number of us could tap into. For me, to move to the next level with my business, I would rather work with somebody and share their resources than try to do it all on my own. But that is certainly an unusual case. There are not many people who would be prepared to do that. For a small fee, if you had all these things covered, I think it would help. If you encourage people superannuation would be part of that et cetera. If the government were seen to be supporting the business, I think it would come across okay.

Ms Gabogrecan—As I pointed out with taxation, you hear all these negative responses about the tax people being there to help you. But I got a very positive response when the tax people gave one on one help. I know that is not logical or sensible and that you cannot keep that up. But the issue was that they felt someone cared about them and was really trying to help them—not only, ‘Hey, you have to do this’ but, ‘I’ll show you how to do this’. So what Sue is suggesting there is about group help—I mean, I set up the Micro Business Network to allow individuals within it to share resources and reduce costs. That was the context behind it. I found, by experience, that they will not do that unless there is guidance from me or one of my advisers to encourage them and say, ‘This is what we are doing. Come in, and we’ll offer you help and you offer your support.’ Then things will happen.

When the Esso explosion occurred in Victoria, I had one of our subscribers come to us. He was a silk screen printer. He had a gas dryer for the things he was printing and he said, ‘I’m out of business for three weeks; what can I do?’ I just happened to know that we had two other silk screen printers in the group so I contacted them and it turned out that one of them had an electric dryer. So I got the three together. They agreed to pay a fee to this guy to use it. What ended up happening was that they found out that, even though they were in competition, they all specialised in different areas—one printed on hard things like cups, another on T-shirts and another on stretch fabrics. They now have an unofficial partnership whereby it does not matter who comes in any door as a customer they never say no. They say, ‘Yes, we can do it’ and then pass it on to the one who can do it. That sort of thing can happen so well and so successfully and that needs the umbrella of people and finances to make it work. As you would know, MBN is a not-for-profit group. We do not get any funding so a lot of what we do is done by volunteers. I do it voluntarily. Sue helps us voluntarily. But at some point for us to really make it work, I want people to realise that government is there to help them.

In the two studies that I mentioned earlier—the one in the ACT and the one on the Gold Coast with the city of Casey—it unequivocally came out that small business does not trust government at any level. There is no reason not to, if you can just talk to each other. If government was prepared to work through their own groups or individual groups like MBN or other trade associations and set up these programs that we could tap into, I think your idea would work. But it is a big cultural change.

Senator MURRAY—The investment of the micro business sector is an example of how flexible and dynamic business is. New challenges and new forms of business emerge. In your list of recommendations and thoughts, I did not get any sense of what was a priority from your point of view. If there were one or two things which you felt governments—federal, state or lo-

cal—should focus on most and which would be of most advantage to the micro business sector, what would they be?

Ms Gabogrecan—I think unequivocally because of the enormous growth at the moment it has to be to get local government and home-based businesses working together to encourage employment, to encourage business growth and to change this sense within the community of backyarders. There are a lot of great businesses happening out there and the community do not know that they are great businesses. We have Neighbourhood Watch, for instance. We need something like that—a home-based business watch in every street. While you are at work there are some home-based businesses in your street that can watch your property. At my home we have stopped a burglary. We have picked up a dog that has been hit by a car. We stop kids pinching the ‘Stop’ sign at the corner street—just because we are there. We have people knock on our door saying, ‘I have somebody coming to fix the washing machine; if I give you the key, can you let them in?’ They know we are there and they know that they can trust us. That cultural change could be instigated—not only with publicity; it has to have government support at the federal level that goes through the state level that goes through the local level. So support for home-based business I would put as a priority. It is not going away—there is 16 per cent growth.

Senator MURRAY—Ms Vitnell, do you agree?

Ms Vitnell—Yes, certainly. As I have said before, certainly with the local government issue, because you know the needs of the region. You also need to understand that, with home-based businesses, we quite often do not support the local economy because we operate on a larger scale. Mine is a Melbourne based business, rather than a Manningham based business. At the same time, having access to local resources would be a great advantage. My biggest beef is education. We really need to educate people.

Senator MURRAY—Do you mean education or training?

Ms Vitnell—Education or training to help the small business understand different things—understand how to run a successful business, find out the resources that you are entitled to or that you can access; that sort of thing. If you educate the small business owners they will have more successful businesses and so on, and it flows through to the economy. So have a government that supports training of those small businesses. For instance, in our council area once every month the three councils combine and have an information session for any new business that is starting up. So you get told about the Small Business Advisory Council and you get told about the TAFEs and you get told about the seminars that are run by various groups in the area and so on. You can tee up with a mentor, if you wish. So there are things around. It is just a case of bringing them all together in a cohesive way and getting the message across.

Senator MURRAY—And those are devices that generate greater productivity, aren’t they?

Ms Vitnell—Yes, because people can access them easily. In most cases they are so cheap, too. They are not expensive. You can go to one of these seminars and for \$25 come away with a grab bag full of stuff and a list of contacts. No professional management firm would even look at you for \$25. Barbara’s network is another great way. You have a focal point that these people can discuss in forums. I have read a couple of the forums, and one of them was on this

employment issue. Again, as a recruitment consultant I could easily see what was going wrong. They had not come up with a job description for this person. They had not worked out the hours they wanted. They had not set these parameters before they recruited the person. A whole range of things had gone wrong. So it was obvious that they were not going to employ the right person in the first place. I could see that. Again, if you have access to these resources quickly and easily, it really does help. Mentoring systems work very well. There is any range of models that you could call on; it is just a case of bringing them back down to the level of the small business operator, and giving them access to it.

Ms Gabogrecan—But there is one problem with all of that, we all agree. My background is as an educator. It is not the lack of money or even the lack of understanding that education will help; it is the lack of time. They do not have time to attend things. That is why we have to do this on the Internet. Since we have got going on our web base, my phone calls have gone down from about 50 a day to about 12. I get somewhere between 50 and 100 emails a day. I sometimes just sit there and type answers, so how do I get on with the job? We have to use the Internet better.

Senator CONROY—Our next witnesses, after lunch, are from the Melbourne Business Development Board, and they cover a number of council areas. I think you made the comment that 67 per cent of microbusinesses—

Ms Gabogrecan—Of small businesses—are home based.

Senator CONROY—The Melbourne Business Development Board submission reads:

Finally, many of the businesses that make up the small business sector operate out of home, mobile or shared offices.

That is consistent with your evidence.

While the businesses can operate extremely successfully out of these limited spaces, the costs involved in graduating to a larger factory or office to accommodate new staff can be prohibitive. With property sale and rental prices at a premium the options for a growing small business are limited, and many opt to constrain growth to avoid the risk associated with moving to larger premises.

They then go on to make a couple of recommendations about how to deal with that. You mentioned in your evidence earlier that the decision to employ one person was the critical step, not employing two, three or four. It is taking that first step. How much of that is a balance between taking into account those other—if I can use the word macro without being constrained—

Ms Gabogrecan—No, I understand that.

Senator CONROY—There is a big decision to take that step out of the home. Given that so many are home based, is that just one of the balances within that? If you are trying to find a solution, I am trying to get a sense of whether it is 50 per cent who say, 'We have to go into an office, and that means employment and super and all these other things.' What is the balance in the decision? Ms Vitnell said, 'I am in a unique situation. I did not want to do that. I was prepared to do something different.' What would be the balance, in your experience?

Ms Gabogrecan—There is some statistical support here. I do not know the exact statistics, but you can certainly find them out. With the City of Casey study, it was unequivocal that people did not want to move out of their home. When they were asked, ‘What will you do if you outgrow your home?’ they said, ‘We will buy a bigger home.’ It was really a lifestyle issue. However, what is more alarming to me, in the big picture, is the number of business incubators that have had millions of dollars put into them by federal government that have closed.

Senator CONROY—The Melbourne Business Development Board go on to recommend the business incubator program, so we will have a discussion with them next about that!

Ms Gabogrecan—The big one here in Melbourne has only closed in the last month, the Melbourne Business Network I think they referred to themselves as, and I was familiar with that right from the ground up. I was actually on the board of the Lilydale one, as well as doing some part-time management for them. It did not have a hope in Hades of succeeding and it is now gone as well. When I travel around, I get the same story in every state: business incubators are going under. And why are they going under? There are two reasons. The first is that the commercial property rates they were paying were too high. The second reason is that nobody seems to have full tenancy. So what does that tell you? If you are putting millions of dollars in to provide 20 offices and you cannot get 20 businesses surely that is telling you something about trying to get people from a home base into an office. On the other side of the coin, for those who do want to do that, it is wonderful but there are not that many that want to do it. I think the proof is quite clear.

Senator CONROY—So that is a factor, if not the major factor: people do not want to take that step outside their home—for completely legitimate reasons, as you say, and these programs have been falling over.

Ms Gabogrecan—Yes. A lot of men, to my surprise, have come out and said quite openly, ‘I want to be there when my kids are growing up. I want to see them before and after school. If they are sick, I can be there to help.’ Sometimes the woman goes out to work, and the husband is running his own business. He can be around more often.

Ms Vitnell—There is a BRW survey that does reflect those statistics. It says that it is a lifestyle choice for a lot of people. A very high percentage said that that was the reason they went into small business—not because they wanted to avoid the legislation or because they wanted to be an independent person or whatever but because they went for the lifestyle. Sorry, I do not remember the number.

Senator BARNETT—It is good to acknowledge the positive comments regarding the role of men. We do not hear that very often.

Ms Gabogrecan—It is not gender specific to MBN in any way, but it is noticeable when it happens.

Senator BARNETT—Point taken. Can I also acknowledge the important contribution of the Micro Business Network. It is well known throughout the community, and thank you for that. You indicated that the unfair dismissal laws were an impediment to business growth, and the CPA survey was referred to earlier. There are different aspects to the CPA survey that are

obviously relevant, and I just draw your attention to the following statement in CPA Australia's submission:

After almost ten years, more than a third (42%) of small businesses don't know how to comply with the unfair dismissal law according to CPA Australia's survey. This is supported by 76 per cent of CPAs advising small business, who believe their clients are confused over termination procedures ...

... ..

Sixty-two per cent of small business and 81 per cent of CPAs surveyed believe the process involved in dismissing staff is complex.

The ACTU—before you—presented their survey of just 300 people prior to the federal election. Using their own words, they said that it was a cheeky survey. The other surveys that I am aware of were by the ACCI and the Australian Industry Group, and all of them said that the unfair dismissal laws were an impediment to small business. Indeed, the perception from the small business person's point of view, whether or not they know the reality, is that this is going to be a concern for them in growing their employment. Is that consistent with your advice and anecdotal evidence?

Ms Gabogrecan—Absolutely. I think this is where you really say that perception is reality. I think it is so easy for government to say, 'Oh, but it is only a perception,' but in the minds of small business perception is reality. As long as they think that, that is the reality of it. I do not know of many cases, although I am aware of one—and they would not let me publicise it—where there was an unfair dismissal that was upheld in a home based business. That was scary, because up until that point I did not know of any home based business that had fallen into this trap. I think what was really awful in that instance was that it was nonsense; it was not even serious stuff. The woman was working in a garage, and she did not want to walk 10 paces to the home, where a special area was set up with kitchen, toilet, bathroom—everything. She wanted all that put in the garage so that she did not have to walk out the door if the weather was not kind, and she won. The thing that this sector does very well is network. The word of mouth is incredible. It never ceases to amaze me. You have to get only one or two cases and it spreads like wildfire, and so all of a sudden they are scared and they will not take that step.

Senator BARNETT—So if you surveyed your database, you would say that the vast majority would say, 'Yes, it is indeed a problem or an impediment?'

Ms Gabogrecan—If we are talking about the people who have not employed at all, that would be one of the areas. I have asked, and it has always been one of the answers.

Senator BARNETT—I have a couple of questions on some of the contributions you made this morning. I would like to flesh out the HECS scheme for start up businesses, because it sounds—

Ms Gabogrecan—It is in mind only, a twinkle in my eye.

Senator BARNETT—The concept sounds very interesting, and you mentioned NEIS and the merit of it. Is there any way you could flesh that out a little, how that might work in practice?

Ms Gabogrecan—Just taking the NEIS bit, as Sue pointed out, some people try to cheat and become unemployed to get on the NEIS. When I was involved in the Micro Business Consultative Group in 1996-97, one of the areas of our report *Under the microscope* discussed the issue of how to get start up money for businesses. In discussion, NEIS was an example even then: why do you have to be unemployed to get support; why can't you just want to start a business to get support?

Senator BARNETT—Do you think we should be providing that support for new entrants into the small business sector?

Ms Gabogrecan—If it is made clear to them. Perhaps they will take their business plans more seriously—which they do not at the moment—if they have to show within a period of time that there is growth and they know that they have to pay back the loan. I had a loans person speak to me the other day, and he said that he would prefer to loan money to a small business than to a consumer. I asked him the obvious question: why? He said, 'If they want to buy a computer for \$5,000 and I loan them the \$5,000, even if they go out of business I know I will get paid. They recognise that no-one else will help them, and they are so grateful to me for giving them that little amount of money just to get them started—and, of course, the computer can be used outside of business anyway.' He said that it never ceased to amaze him that he did not have any bad debts with small business, when he did have bad debts with consumers. I thought that was interesting.

Senator CONROY—From recollection, I think there are a couple of overseas programs that make loans particularly to women's groups and to women, and there is something like a 95 per cent payback. I saw the story a while ago now. Are you familiar with that?

Ms Gabogrecan—I am. I do not know the names of them, but I have heard of a couple, yes. I had an email yesterday from a woman in America who is involved in women's groups, She wants to create an alliance with MBN because she sees that we can offer lots of things over there and vice versa. I was thinking, 'I don't know enough about America yet,' but I never say no. I just say yes and then figure out how it will happen. So it will happen. Yes, there is evidence overseas. The project manager from the city of Casey left the city of Casey, went into Victorian government realms and is now in London doing a year of study. She rang me. She is doing her thesis on micro finance.

Senator CONROY—Yes, the micro financing issues.

Ms Gabogrecan—She was asking me questions about NEIS et cetera. She would like to do the study about Australia. She rang me from London last week and said, 'Barbara, everywhere I look there is nothing in Australia, but I want to come home to do it.' She did not want to go to Canada or wherever it was recommended that she should go. I thought it was sad that there was nothing in Australia. Other than NEIS, there is nothing in Australia.

Ms Vitnell—The other thing to bear in mind is the venture capital model that was used in a lot of technology start ups too. My husband has been involved with venture capitalists and incubators. Basically, what ends up happening is that a lot of these venture capitalists do not have any idea of business; they just do not understand the business. They will go touting that you can apply for venture capital and you can do this and you can do that, and they might see

300 proposals and approve three. It is even worse than going to the bank: your success rate is virtually zero. Then you find that a lot of these people are just maintaining the incubator so that they can get an income. There are a lot of these people in various employment schemes, and the reason they keep the statistics so low and do not get the results that are required is that they want to keep their own job. You need to look very carefully at these issues when you implement some sort of policy. NEIS works, from what I can gather, and it works because you are trying to get somebody who is unemployed into work and you are making them do the work to do it. You cannot just implement something and get somebody supervising it and give them statistics.

My husband applied for a job. He could actually achieve the results of getting people into work at three times the level that was required in this job description, but the job did not go to him. It went to another person who could not achieve those results and who took three times as long to even say that it could be achieved. You just wonder how this happens. This is why, when you come up with one of these schemes, you should make sure that you are not just making another government funded program to employ people who have a vested interest in keeping the levels at the levels they are. You need to make it so that they are encouraged to get the results.

Ms Gabogrecan—I have one quick point on that, because I think this is very interesting. I actually spoke to some NEIS people in Ballarat last week at a company called Brace. The ACC were with me at this meeting, and in front of me they asked, ‘What are your long-term statistics on how these people have gone?’ I knew what the answer was going to be: they do not have any long-term statistics. So another problem is that we do not know what happens over three years or five years, once they stop. Austrade told me exactly the same thing: with all their export grants—this was a few years back. They did not know whether or not the 35 per cent of people who had won a grant were still in existence. They never heard from them.

My immediate response was, ‘Why, when you check with them?’ They said, ‘We don’t check; we don’t have any funding for checking.’ In business, you keep a customer by developing a relationship, and you keep in touch. You keep a check. That is what quantifying your results is all about. If you really want to talk about business, or to business, you have to think like business and expect similar outcomes.

Senator BARNETT—In the 13 years that I owned and managed my small business, prior to entering the Senate in February this year, I met a lot of small business owners who found it difficult to pay superannuation. They supported the concept but still struggled to pay. They held the view that they supported the concept of the employee making a contribution as well. You touched on this earlier: could you advise us of your views in that regard?

Ms Gabogrecan—It is a very real problem that especially contractors can earn more money than the employer does. The employer gets very annoyed that they sometimes have to pay the superannuation for that person because they are deemed an employee under the 80-20 rule. That becomes a problem and, therefore, you are quite right: they not only do not pay their own superannuation, they resent having to pay other people’s superannuation.

Then they go the next step and even though they understand the reason behind it they say, ‘Let’s not employ at all, let’s just stay within the family. Then we don’t have to employ and, therefore, we don’t have the on-costs.’ It happens all the time. This may be anecdotal, but I bet I could get 100 people to verify it tomorrow. Your experience is absolutely correct. This group

does not have super and they do not like to pay super because they cannot afford it. I must admit when I was at the ACTU, I thought, 'Shall I get up and speak?' because somebody there, as well as a previous prime minister, made the statement, 'If they cannot afford it, they should not be in business.' The reality is they are in business and they are not on the dole. If they are not on the dole, surely it is up to us to support them to be self-sufficient? We have to figure out ways to make the self-employed person get some of the benefits that we expect employees to get, because they might be the employer and the employee in one but they get no help whatsoever as a self-employed person.

Proceedings suspended from 12.32 p.m. to 1.30 p.m.

MACDONALD, Mr John Gerard, Executive Officer, Melbourne Development Board

O'TOOLE, Mrs Jacqueline Kelli, Project Manager, Melbourne Development Board

CHAIR—I now welcome representatives from the Melbourne Development Board. The committee has before it submission No. 35. Are there any changes you wish to make to the submission?

Mr Macdonald—No. We have just distributed a summary of some of the key points that we have made, and we are happy to answer any questions that you may have for us.

CHAIR—Is there agreement that that statement be tabled? It is agreed. Do you wish to make an opening statement?

Mr Macdonald—In general, we believe that small business needs many things from government. In general it needs advice, information and support, and it needs a way to access that information. Perhaps in answering your questions I can expand on some of those points.

CHAIR—In your submission you identify the main problems facing small business. One of those is the issue of management skills. This is an issue which also came out in the hearings we had in Perth, and it came out in the hearing this morning. Many people enter small business ill prepared to deal with the sorts of issues that they are required to deal with to manage their business effectively. I would be interested to hear your views about that aspect and whether or not you have you got any views about how government might address that particular issue.

Mr Macdonald—We see that as a critical area in our particular region. As our submission states, we have a little over 50,000 businesses in our region. The majority of those, somewhere between 92 per cent and 94 per cent, are small businesses. Many of those business owner-operators have come from the ground up or have inherited the family business. They may be excellent widget makers or whatever the specific skill of the business involves, but they invariably lack the planning, entrepreneurial, new technology and training skills that go hand in hand with running a successful business in today's market. Under the former DEWRSB Small Business Enterprise Culture Program—which now has a new name but it escapes me at the moment—there has been until recently only between \$1 million and \$2 million set aside nationally. We would see that style of program as ideal for expanding the range of specific business skills that business operators need. Whether it is marketing, business planning or e-commerce, those are the modern and technological skills that are required.

Mrs O'Toole—I have personal experience of running a small business—my husband is a small business operator. While there are some programs out there run by the state government as well as the federal government, in addition to the Small Business Enterprise Culture Program, a lot of them are not easily accessible to small business owners. A lot of information that is available for them is on the Internet, and they simply do not have the time to surf the Net and find that information. Basically, they are thrown in at the deep end. They are trying to make a living, and really that is often all they have time for. They want to do the right thing but, because of the accessibility, they are unable to.

CHAIR—Do you think there is a need for us to look at ways and means by which those programs can be taken to small business rather than the reverse?

Mr Macdonald—Absolutely. One of the challenges thrown down to area consultative committees is to embrace this whole-of-government approach. We very much try to bring that together, but we are trying to do that almost at the bottom end of the scale. It is not particularly useful for us to try to bring programs together if, at the departmental level, when programs are being developed, departments are not talking to each other or there are overlapping issues. We find that a real issue. Every government department—federal or state—and even local councils will tell you that they have got a web site, that they have got their information out there. As Jacqueline says, many companies do not have access to the web but, even if they do, it is almost impossible to find the information. It is very difficult. Despite some of the web sites which endeavour to do so, government information is not really accessible and available on the web under the needs of the client. It talks about the particular program and, very often, that assumes that the reader knows what the program guidelines are and knows who the target group is. It would be far better to turn these around in a customer service fashion and talk about programs for skilling small businesses, for example. The small business operator makes no distinction between whether a program is a federal or a state or a council program. They know they need the skills, the advice or the support, and they do not make those distinctions.

CHAIR—I understand what you are saying. In fact, I had cause to access a department web site a couple of days ago and the information on it was actually six weeks out of date—the information about a program was changed six weeks ago. So there is also a problem of time lag with some of the information. We had a witness in Albany who put a proposal to us to consider the establishment of what she called ‘G shops’—in other words, one-stop government shops where small business, or whatever type of business, could go and access information about various government programs, whether they are federal or state programs, and where they could lodge their BAS returns and interact with government over a range of facilities and access points. Is there merit in this committee pursuing that issue further or is there a need for a multiplicity of resources out there to assist small business? Is it possible to do it all through one channel or is there an argument to keep a number of avenues operating?

Mr Macdonald—I firmly believe you need a number of opportunities and access points, because businesses come in all shapes and sizes. There are small businesses, there are home based businesses, and there are people who are technologically literate who will jump on the Net and work it out for themselves. You may be aware that, in Victoria, we had the one-stop shop approach. We had First Place, which was a pilot program between, I think, the departments of state development and employment. I am not sure what the full name of the department was at the time. I had personal experience in the set-up of that program. Unfortunately, there were the usual difficulties and jealousies between state and federal agencies—and, as I understand it, between ministers—and there were also, as can be expected, funding issues.

If you are going to proceed down that path, it will not be an easy task. You do not necessarily need them everywhere but, by the same token, you would not solve the problem by just putting one in Sydney, one in Melbourne or one in Perth or wherever. Businesses need access points on a regional basis. I am not saying that you would solve the problem by simply having small business assistance offices with every ACC, because many small business operators do not know about an ACC or where they might find an ACC. I think you need a flexible arrangement

that looks at the appropriate delivery points in a particular region. In a regional centre, the most appropriate point might be the council or the local government authority. If the council or the economic development people in that particular area are proactive and are known to be the best reference point, that is where businesspeople will go. So I believe you need a multitiered approach, but that will require a long-term commitment and it will certainly come at much more expense than a bunch of web sites.

Mrs O'Toole—I would just like to add that, if you did follow the path of going along the one-stop shop type arrangements, I think you would certainly need to consider having officers available to go out to businesses. Small business operators often work 12-hour days and do not have the time to go out of their workplace to access these one-stop shop type arrangements. That is one of the reasons that they have not been as effective as hoped. So I think it would be a lot more effective if you had people available to go out to businesses. They could make an appointment and that sort of thing.

CHAIR—Before lunch we had some evidence from the Micro Business Network which was fairly critical of business incubators and the fact that a couple in Melbourne have recently fallen over.

Senator CONROY—The major one fell over last week. I think it was the Melbourne business network.

Mr Macdonald—The Melbourne City Business Network.

Senator CONROY—Yes, it fell over last week.

Mr Macdonald—I thought it fell over before last week, but I will accept your advice.

Senator CONROY—Sorry, it was last month.

CHAIR—I was at the Monash council yesterday. They seem to be a council that are very proactive in getting out there and assisting business. They were telling me that they are actually building an extension on their business incubator because of the demand there is for businesses to enter into that program. What has been your experience with the business incubators?

Mr Macdonald—We feel very well qualified to talk about business incubators, and we feel very passionate about the issue. I would acknowledge both situations. If I can be brutally frank: the Melbourne City Business Network was a business incubator that should never have been funded in the first place and it was absolutely no surprise that it fell over. There were two main issues there. It was based here in the CBD and it was locked into paying commercial rents. It was always going to have a cash flow problem if it charged tenants perhaps peppercorn rates or lower than commercial rates. Sadly, it did very little in the way of mentoring and supporting those businesses to grow and expand. Our experience with the Melbourne City Business Network is that it was essentially a serviced office operation and it should not have got government funding in the first place.

Senator CONROY—The other one the network mentioned was Lilydale.

Mr Macdonald—I cannot speak on that; I do not know—

Senator CONROY—That fell over as well.

Mr Macdonald—Business incubators have fallen over in Australia, but I think that has largely been a case where the principles and the guidelines that were established under the business incubator program were not actually followed through. Business incubators work very well when they have the fundamentals of co-funding and a business champion—whether it is a council, a TAFE or a university—that is a strong supporter doing the mentoring and getting the business sector involved. That brings me to the Monash experience. Our organisation arranged for the feasibility study for the incubator to be established. The city of Monash continue to be strong supporters of that incubator. Its major problem now is that it does not have enough size, space and critical mass to bring in sufficient cash flow on an ongoing basis. The councillors there are shortly, I believe, to visit Canberra to lobby Minister Hockey for additional funding. Where incubators apply and follow the principles that make incubators work, they are very successful. But there are, unfortunately, always examples where people will fly a kite and a few fail. I think that is a risk that the government should be prepared to wear. We would, in fact, implore you to do whatever you could to increase the level of funding for the business incubator program.

Senator CONROY—The Micro Business Network put to us—and it is interesting that your figures back this up—that 67 per cent of small businesses are home businesses, and it is taking that next step from employing not just five people but also one more person and needing to move out of a home. Their argument was that that was a major part of the problem. They put to us that the reason some of these incubators fell over was that they actually could not fill them. I think the Lilydale one was the one they had direct personal experience with. They could not get 100 per cent tenancy. It was out at Lilydale, so you do have the high commercial rent issue. It was that resistance to taking the step out of the home, because it was a lifestyle decision. Are you saying with a lot of work you can get around that resistance? Have you found more success in attracting them?

Mr Macdonald—Not every home based business wants to become a Coles Myer. Some of these people are operating out of their bedrooms, backyards or garages because of lifestyle issues. They do not want to put on a collar and tie and be locked away for however many hours of the day. Perhaps when they were establishing that incubator in Lilydale, there was not enough research done to ascertain the genuine level of demand. Whilst there could well be many home based businesses in Lilydale, they may all still be very happy to work from home. You have to identify those who want to grow and expand their businesses, and that is not automatically every single home based business. It is difficult, but that is the reality.

Senator CONROY—In your view, in drawing people into the incubators, is that lifestyle issue one of the biggest ones to get over? Are there other factors?

Mr Macdonald—Yes, and the confidence. Home based business operators operate in a vacuum. Unless they are dealing online with their customers and suppliers or they have other personal networks they are on their own. They are making their own mistakes and repeating those mistakes because they are not in perhaps a normal business relationship where they are exposed to best practice and so on. A business incubator can do that but it is like a kid starting

out at school: they lack the confidence. A skilled business incubator manager, who can show them that they will get not only cheap rent but also monitoring, support, advice, mentoring and assistance with business planning, is the real value-add that a business incubator can provide. That should do the trick for most of them, but there will be some who do not want to grow.

Mrs O'Toole—With regard to the success of business incubators, it has to be made clear to businesses who are thinking of joining a business incubator that their time in there is limited; they are expected to grow and move on. Businesses not doing that also contribute to business incubators failing. They need to be mentored and encouraged, because the idea of business incubators is to have them there for only a short period of time.

Senator CONROY—Is that 12 months or two years? What is the time period?

Mrs O'Toole—I think it is probably two years.

Mr Macdonald—Certainly 12 months to two years. Some will graduate faster than that; others take a longer time. About two years should be enough time to determine whether a business has got what it takes to grow.

Senator CONROY—There was some criticism of the measuring of what happens after they leave the incubator. Are you aware of whether any statistics are kept to see how they are going two years or five years after that?

Mr Macdonald—That is a problem area. There is very little that is available out there, and it is often in managing the growth where businesses fail. They often fail at the beginning, the start-up, but then many other businesses fail when they try and grow. It is managing the growth of that business that leads us back to our comments about the skilling of the managers and operators.

Senator CONROY—With your typical incubator, are there compulsory courses in professional management training or HR? You mentioned mentoring. Are they all part of the ambit? Should they be? They are getting a subsidised rent; they are getting a whole heap of things. Is there a training mechanism around them?

Mr Macdonald—My view is that most small business operators are not going to commit to a long-term professional course, whether it is an MBA or some other long-term accreditation process. They simply do not have the time. What we need is a menu of short courses—the things that Colin O'Brien's Business Enterprise Centres and Barbara Gabogrecan's Micro Business Network offer. Often it is just the practicalities of getting together and sharing. In Victoria we have the Small Business Advisory Council which operates out of the Monash Enterprise Centre. Through state government funding, they have made that their base. They offer counselling, mentoring and support services to not only those tenants but also small businesses all over.

Senator CONROY—I appreciate you saying that these things are offered, but what I am really asking is: as a condition of coming into the incubator, is it mandatory to do these short courses you are talking about? So a quick course of 'here is how you sack somebody; here is how you employ people; here is how you handle cash flow.' If it is not mandatory, should it be?

Mr Macdonald—That is a very good point. It is not mandatory, to the best of my knowledge, although a good incubator manager will turf out a tenant if they are not showing interest and motivation. But I think, on the face of it, that concept could well work; that in return for almost reciprocal obligations—

Senator CONROY—That is really what I am thinking about. I was not in Perth, but senators have mentioned that the theme from the Perth hearings—and the theme so far today—was this general training issue in skilling people up to a level. Given that everybody else has to go through reciprocal obligations nowadays, it may be that, if we are going to invest in these incubators, a part of a solution may be that it becomes reciprocal—that is, ‘We will give you this as a cheap rent and these mentoring and other skills, but you have got to undertake to do these things as part of your contract with us.’

Mr Macdonald—Absolutely. I cannot see why that is not a great idea.

CHAIR—I recently visited the technology park at Shannon in Limerick, Ireland.

Senator CONROY—Stop showing off, George.

CHAIR—I went and worked. They have a three-year period. The interesting thing about that model is that they have the university, which is focussed on ICT, they have a technology park, which is the incubator, and then they have the business park alongside it. Essentially it flows through the university into the incubator and into the business park. The thing that struck me yesterday about the Monash model is that they have something very similar in that they have the university, they have the incubator and they have all of these business parks that are growing up around the university. Whether that is conscious or not conscious, it seems to me that that model is one that appears to have a fair degree of success. Are you familiar with any other areas in Victoria with a similar type of model operating, with a link between the university, the incubator and the business parks?

Mr Macdonald—Ballarat is one such example. I think the model that you have described works very well with IT and technology issues—

Mrs O’Toole—And research.

Mr Macdonald—And research. It also works very well where you need venture capital to come in and support that infrastructure, technology or new idea that is yet to flower. There is an excellent IT incubator about half a block from here—Information City Victoria—which the people here at the City of Melbourne can tell you a lot about. I can give you some details afterwards if you wish. That is based on a venture capital model. It was funded out of the federal government’s BITS program a couple of years ago. One of the issues there—

Senator MURRAY—What is BITS, for *Hansard*?

Mr Macdonald—I was hoping you would not ask me. The acronym is BITS, and I think it is Business Information Technology something—science or services—through Senator Alston’s department of communications, and it goes back about 18 months. One of the issues for the model that you have described is that universities can get a bit carried away with incubators and

start them up for all the noble reasons that we have discussed, but two or five years down the track some vice-chancellor comes along and says, 'That is very interesting. We will just suck that into the rest of the university in the research capacity', and it becomes indistinguishable from any other structure within the university. We do need a mechanism just to protect that from occurring, to ensure that those business incubation services reach out into the community and do not become a just service for the researchers within the university.

Senator MURRAY—We will have our period of fun now, which we have been having in the hearings. It consists of asking you to think of anything that government has done which is good for the small business sector.

Mr Macdonald—Government does many good things for the small business sector: ACCs and SBAOs, and I would not be critical that governments do establish web sites. We would like to see more coordination, more understanding of business services at local and regional levels. I think with the government's general approach that its heart is in the right place. I think, though, that it is easy to say that more money should be spent on some of these programs, and that obviously does need to occur. But sometimes government agencies, unfortunately, tend to work against each other. The employment department, for example, runs hiring and firing seminars, a very worthy service to the small business sector, that talk about those skills. Unfortunately, the focus is on the fear factor—the firing, the unfair dismissal and all of those horrible, nasty legal things that can blow up in a small business operator's face. We do not see agencies putting out information on how to get the process right, how to grow your business by getting the right staff, the right skills that you need.

We do not have the solution, but we are preparing a product that addresses that issue at the moment for businesses in our area. So sometimes the messages are mixed. I also think that governments—and I mean governments in the plural—have not recognised the technological changes that are taking place and the new economy jobs that are being created at the moment. So many government programs are directed towards, shall we say, the old technologies and the old jobs, with not enough understanding being given to the potential new jobs that are being created with new industries such as IT, the games industry, multimedia and so on. These new growth areas do not have an Australian industry group or a VECCI that has been there behind them for 50 years, 70 years or 100 years to argue their case. Like the computer industry, if we do not jump in and support these microbusiness sectors now, in 20 years time, when the rest of the world has these new jobs, we will not have them because we were not there at the start.

Senator MURRAY—The issue of receiving information upwards to politicians, political parties, bureaucracies, agencies and departments from small business is a big one simply because there are not enough organisations that are representative of enough small business. That is one thing. The other thing is the downward transmission of information, training, program services and so on. In Western Australia, to supplement the business enterprise centres, the area consultative committees have regional development commissions. To supplement those groups, plus all the informal and industry association groups, is something called the Small Business Development Corporation. Are you familiar with them and their work?

Mr Macdonald—I have heard of them. I do not know all of their parameters, but I am aware of that arrangement.

Senator MURRAY—I am by no means an expert on them, but it is a state body that provides, firstly, an advocacy and information service to government of specific small business needs and views. It is autonomous, incidentally; it is an independent statutory body. Secondly, it provides programs and services in the kinds of areas you have discussed but not with the intention of duplicating. Thirdly, and most particularly, it tries to do a one-stop shop in terms of information and advice on licensing, licence systems and so on. It has quite a comprehensive web site and information service which is quite advanced. One thing that I should add for your information is that there is, I think, an equivalent in New South Wales.

CHAIR—It is here in Victoria.

Senator MURRAY—Is it? I think it is New South Wales; I do not think it is here.

CHAIR—I thought it would be part of the small business—

Senator MURRAY—Anyway, we are obviously confused with that, but we do know it exists in Western Australia. Do you think there is a need for such a body here in Victoria? Is there a lack of that kind of one-stop, state-wide body which wraps up local, state and federal issues in one outfit?

Mr Macdonald—Certainly, absolutely. Again, the issue has to be one of genuine cooperation and support between the tiers of government and the agencies concerned. You cannot establish something like that by breezing into town and telling the councils, the shires, the state government or whoever, ‘We have come up with this brilliant model and we want you to give us 2.3 staff.’ If it is properly developed, is inclusive at the beginning and is a genuine effort to serve the small business customer base, then you will get that support, but it needs to be done in such a manner. It sounds like a great model to me.

Senator MURRAY—It struck me as interesting. I think it was originally set up by a Labor government. The coalition government liked it very much and kept it going, and so do the latest Labor government. It has cross-party support and has quite some experience and credibility. Since I would expect the small business ministers in the states to be aware of it, I am surprised that that model is in only two of the six states.

Mrs O’Toole—I think it would be a particularly good model, especially if it is being set up by levels of government that had some lobbying power as well. One of the common complaints of small business is that, as you mentioned before, they do not really have a body to represent them. The bigger industry groups do not tend to want to represent the small businesses anywhere near as much as they do large business, so something like that would work two ways. It would distribute information and advice and that sort of thing to local businesses, but, if it could also act as a body which is the lobby organisation to the government, I think it would be a really good model.

Senator MURRAY—It is entirely separate from the small business ministry.

Mr Macdonald—I think two other advantages out of the model you described would be that, firstly, that type of arrangement could collate data and information on a regional labour market, as we are trying to do in our ACC. One of the issues I wanted to raise today is that many small

businesses are information poor not just about what government has or what programs there are but what the environment is, what the market is, what the labour force is, what the available pool of skills is, where they can potentially sell their product to and what other businesses in their region could be suppliers or buyers. An organisation like that could collate, feed and massage that information and make it available on a local basis. A small business in Albany may have a partnership with somebody in Brisbane but they are more likely to have a partnership with someone else in Albany.

Senator MURRAY—My statistics might be a bit dated, but I wonder what influence they have had in this. Western Australia is about 10 per cent of the national GDP but we have, I believe, about 15 per cent of small businesses, so it is a very high relative percentage. The SBDC has played quite a role, with those other organisations I have outlined. Thank you for that.

Mr Macdonald—The other thing that I think an organisation like that could provide is that small businesses are not all generic, they are involved in all the different industry sectors, so it is a good way to feed information back to government on what is happening in various sectors within the small business environment.

Senator BARNETT—I am interested in furthering this argument that Senator Murray is putting to us and posing a question for us to consider regarding small business. I had 13 years in small business prior to entering the Senate in February, and a common theme and response from small business colleagues in Tasmania and throughout the country is, ‘Government does not listen and we don’t have a voice.’ We have just been talking about how you represent the voice of small business to government. At the moment we have the area consultative committees funded by the federal government, such as yourself, you have got the business enterprise centres and we have just been talking about the Small Business Development Corporation in Western Australia and a similar version of it in I think New South Wales or wherever. I am really fleshing that out and asking whether you can think of better models. If I can be a devil’s advocate, you have got the industry associations. You mentioned AIG but there are the hairdressers association, retail traders and a whole host of them across the board. Of course, most small businesses are not represented in those industry associations. What is the best model? Which way do we go: the area consultative committee, the business enterprise centre, the development corporation or all of the above, or do we take the funding away from all of that and just fund the industry associations which are there at the grassroots dealing with their members every day and let them do the job and do it very well? Do you want to talk about the pros and cons of those possibilities?

Mr Macdonald—It is a challenge.

Senator BARNETT—It is a challenging question.

Mr Macdonald—Some of these views are perhaps my own views so I would hate to represent too many other people in saying them. There is not much point having area consultative committees, industry associations and business enterprise centres if they are not given the opportunity to input or to feed information back up the line. For example, at this very moment the Department of Industry, Tourism and Resources has the Office of Small Business. I understand they are reviewing their small business programs. Nobody within that office, to my

knowledge, has made any contact to any ACC for our input into how those programs might be more responsive or more appropriate. Industry associations like AIG or VECCI have research staff and have an infrastructure so that any time a Senate committee comes along or submissions are being invited they can provide, fairly quickly, the government or the Senate committees with their particular points of view. Many of these other agencies simply do not have the time and the resources. You are looking at about half of the resources of our area consultative committee, and we are asked to do many things. As much as we would love to, we cannot always put these submissions together. What I would say is that government agencies, when they are developing their programs or rejigging them or considering changes to them, need to build in some consultative processes. I would almost argue that it does not matter who they talk to or how many they talk to as long as they are genuine in that process and build some time into that process.

As ACCs, it has been our experience that very often the first time that we are aware of a new program is when it is out there and the rules and the guidelines are set in concrete. Consultation does not happen if it is not invited or encouraged. It only happens in an environment where it is welcomed and allowed for.

Senator BARNETT—You make a very good point and I take that on board. Focusing on this idea: is there any merit, instead of just setting up these statutory authorities and quangos, in actually funding, helping or supporting the industry associations that are out there at the grassroots level dealing with real, live, small business people every day?

Mr Macdonald—Again, I would like to say that this is a personal view and based on my personal experience. Where I have seen larger industry associations funded by government departments to spread the word or promote a particular program, it has been my experience that most of that funding has gone back into the industry association, that the short-term contract has sucked up most of the money, and that the legacy that they have left behind has been very hard to find. Industry associations are very good at supporting industry associations and if there is particular emphasis on, for example, traineeships or those sorts of more government type interests then they are often quickly lost.

Senator BARNETT—I am trying to get hold of this philosophy, though. You talked about the importance of consultation with the business and redesigning these programs so that they are going to be effective. Surely those that are close to it are in fact the industry associations, of whatever variety and colour.

Mr Macdonald—Very often that is the case. I guess what I am saying there is that there should be a bit more science built into the funding contracts so that the deliverables are a lot easier to find and articulate.

Mrs O'Toole—I think you will find also that a lot of small businesses do not necessarily see the industry associations as being at the grassroots. From my experience working in state government with small businesses, a lot of them won't join industry associations because they do not believe that they are doing anything to serve their interests: they are interested only in serving the interests of larger industries and their own bodies themselves. I am not saying all industry associations by any means. I think there would need to be a fairly selective process for which industry bodies you would choose.

Senator BARNETT—I can relate very much to that, having been in the small business sector. When you are dealing with big business, I know exactly what you are talking about there. I am just trying to work out if there is some sort of model; otherwise where else does the funding go? Maybe we do not provide any funding. You obviously support the concept of an area consultative committee, of which you are a part, and you have an important voice. If you think it is such a good idea or a great model, should we have one in every square kilometre of Australia? What is your response to that?

Mr Macdonald—Any response in the positive would seem like a desire to build an empire. ACCs have been quietly beavering away in the background for over seven years now. I think one of the reasons they are successful is that they are not trying to be the lone ranger or the only game in town: 'We're here, everyone else fall in behind us.' That is doomed to failure.

Senator BARNETT—If I am a small business here and you are outside of an area consultative committee gambit, I am benefiting from the area consultative committee. I am trying to think of those who are not benefiting from your good work. What are your thoughts?

Mr Macdonald—I do not think there is ever going to be one size fits all. In some places, as I said earlier, the local council or the shire may be seen to be the best place for business services to be delivered from or for business advice to be gained from. In another part of Victoria or Australia it could be the business enterprise centre. You could use ACCs in a consultative way to recommend to government who the most appropriate bodies are in their particular areas if they go down the path of establishing these facilities. I would not automatically say that it would be the ACC. It may not be and perhaps it should not be.

Senator BARNETT—On the topic of technology, you have talked about it in your submission and have acknowledged the importance of technology. In my small business it transformed my business to be, as Senator Murray has talked about, more productive and efficient. We all want to achieve those objectives. Do you think that one of the reasons we have a high percentage of home based businesses—and obviously some are doing well and some are not—is because we have new technology and that is helping them to achieve their objectives of being efficient and profitable? Would you agree with that?

Mr Macdonald—Yes, but sometimes it has the reverse effect. Technology opens up new opportunities. It allows you to be independent and to work from home. But then if you have not got the broadband capacity and you are in the new media or the arts area, then you are really locked out of the system because you do not have access to the infrastructure. Sometimes small businesses, and even medium-sized businesses, are turning to technology solutions because they cannot get the skills. They will buy the machinery, the computer or the software program because they cannot get the skills that they need elsewhere. So one solution is not always an answer to every problem.

Senator BARNETT—But does government have a role—whether it be federal, state or local—in educating small business and others in technology and in understanding how the Internet works and how it could help their business? I know it helped transform my business and others as well.

Mr Macdonald—We would see that as part of those business skill processes. We are running a program at the moment to encourage the uptake of e-commerce. That is not saying to every small business operator that if they go online they are automatically going to sell a million copies of their product to people in Botswana, but it might help them to understand their internal business systems better if they are forced to go online. Their inventory, customer supplies, databases—all of those—will add to their critical skill situation.

Senator BARNETT—I think I will finish there. I think you have covered most of those key points and I thank you for your contribution.

CHAIR—Thank you, Mr Macdonald and Mrs O’Toole.

[2.20 p.m.]

O'BRIEN, Mr Colin James, Executive Officer, Business Enterprise Centres Inc. Australia

REID, Mr Ian Black, Business Consultant, Business Enterprise Centres Inc. Australia

CHAIR—Welcome. The committee has before it submission No. 72. Are there any changes you wish to make to the submission?

Mr O'Brien—There are no changes as such, but there is some additional information that I will hand in during the time.

CHAIR—Do you wish to table it?

Mr O'Brien—Yes.

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. Do you wish to make an opening statement?

Mr O'Brien—I am not sure what the formalities are going to be, but you have a copy of our submission.

CHAIR—They are fairly informal and relaxed. I thought there may be some points you wish to address or to draw our particular attention to. It is not compulsory.

Mr O'Brien—There are a couple of things that I wanted to mention which I discussed with Margaret after she had read the submission a couple of weeks ago. She asked me to provide some examples of duplication of service delivery to small business in Australia. Included in what I just submitted are a couple of examples, in both New South Wales and Victoria, of duplication of small business services. I would love to have the resources to be able to go all around the country to look at duplication of small business service delivery, but unfortunately that would probably take me about 12 months to do, so I have provided a couple of examples for you which I have submitted today.

Senator BARNETT—You mentioned in your comprehensive submission, for which I thank you, that 75 to 85 per cent of small businesses do not belong to an industry association. This afternoon we have been discussing and debating how small business can have a voice. In my time in small business over the last 13 years, prior to being in the Senate, a common theme of small businesses has been that government—whether it be federal, state or local—does not listen to them, and they do not feel as though they have a voice. Obviously the Business Enterprise Centres enable small business to have a voice to some degree. Do you have some suggestions on the model or recommendations on how small business should have that voice and how that should be funded; whether we should have more business enterprise centres, area

consultative committees or a small business development corporation? We were in Perth last week, and there is a state government-funded corporation there that provides advice and assistance. It has a business entry system where people get details on licences, permits, approvals and that type of thing. Should there be support and funding for industry associations to do more of the networking or the education? Could we just flesh that out a little bit from your perspective and hear your recommendations?

Mr O'Brien—There are quite a few questions there. Business Enterprise Centres, as such, do not represent small business, but we are able to provide feedback in terms of what the primary issues are for small business. Unfortunately, we do not have any formal links or formal profile with the Commonwealth government—or we certainly have not up until now. I have expressed that view to the Office of Small Business.

Because we have more contact with small businesses than any other group in Australia, including those that do not belong to industry associations and therefore do not have a voice, I certainly think it would be advantageous for us to have a formal profile with the federal government and for the government to be able to use us as a conduit to conduct research on a regular basis on a cross-section of businesses not belonging to industry associations, enabling their views on various issues to be represented to the Commonwealth government on a regular basis. That does not occur at the moment.

Senator BARNETT—So you feel that your BECs around the country can represent their views to the state government but, because you are BECs Australia, you feel as though you are not able to represent your views to the federal government at the moment?

Mr O'Brien—That is correct. As is said in the submission, BECs are funded on a state by state basis. So you therefore have almost state boundaries with a lot of the issues that are represented. When business enterprise centres get together they invariably concentrate on state issues because the federal government does not have any association with them. I think that having a national profile or a structure from the Commonwealth government that is involved with BECs will enable you to get feedback from the BECs in relation to their problems or issues that are being raised by small business and that can be fed back.

Senator BARNETT—So there would be a lot of issues raised in your BECs around the country, that you would be aware of, that are federal in nature, whether it be industrial relations or what have you?

Mr O'Brien—Yes. Taxation was one issue about 18 months ago. I asked the business enterprise centres a number of questions in relation to what the small businesses they were dealing with felt about the taxation changes. Essentially they came back and said they could not cope with all the changes; they were overwhelmed by it. They did not put that in the submission. They felt that any more changes were going to be very difficult to be able to cope with. That is one of the issues on which they get anecdotal feedback.

Senator BARNETT—How does the communication system work between you and the other BECs around the country?

Mr O'Brien—We have a structure which has one representative from each state representing the BECs and any issues tend to go through the state representative. Occasionally issues go directly to BECs but at the moment they go through each state contact.

Senator BARNETT—Then they feed that through to you?

Mr O'Brien—If there are any issues that we raise. At the moment I am not involved in passing back issues to the Commonwealth in relation to matters affecting small businesses. I am the only one in the association, so that is a time factor that I cannot cope with.

Senator BARNETT—There is only one of you is there?

Mr O'Brien—There is only one of me.

Senator BARNETT—You are based in Melbourne?

Mr O'Brien—Yes.

Senator CONROY—You do not have any contact with the Office of Small Business at all?

Mr O'Brien—I do. We have been in contact with them for about the last 18 months, particularly about the Small Business Assistance Officer program. We, in fact, put in a submission to the federal government earlier this year in terms of how we thought small business programs and services could be delivered across the country and specifically what we would recommend to replace the SBAO program.

Senator CONROY—When you say that you do not have any direct method of inputting into the federal government, are you saying that your approach is ad hoc?

Mr O'Brien—It is ad hoc. If I think there is an issue I need to raise then I will contact them. There is no formal mechanism for BECs Australia to do that.

Senator CONROY—They do not get in touch with you on a three-monthly, six-monthly or 12-monthly basis?

Mr O'Brien—No, again it is ad hoc.

Senator BARNETT—Roughly how long have you been operating?

Mr O'Brien—This is the third year. We were established in 1999. I have been in this position for almost three years.

Senator BARNETT—Under your charter it does not say, 'communicate with all three levels of government' or anything like that?

Mr O'Brien—I would have to think of our charter. It would certainly say that—but, again, I am the only person in the role.

Mr Reid—In actual fact, it is the reverse—if I might come in on that one. It is certainly not a political issue with BECs. We have to be client driven. Our client is not the government; our client is the small business and our focus has to be there. I must emphasise this. I have been in this for a lot longer than most and I have seen the growth of it. What we have needed is conduits for support in two forms right from the grassroots levels representing small business. There is no one organisation that can represent, or does represent, all the interests of small business, because they have all got sectorial interests.

Senator BARNETT—Exactly.

Mr Reid—That is the problem with your Office of Small Business—it is politically driven; it is not client driven. It is looking for a situation where, if they put a million dollars into something, they can say, ‘Here is our result; we have increased taxation,’ or ‘We have employed more people.’ They are looking for political scoring, instead of getting down to the grassroots level. It is cause and effect. I do not want to take this over, because Colin is the executive officer, but I have certainly come in to support this very strongly. I want to table a positive program that I believe will demonstrate where the needs are. I do not know whether this committee is familiar with the FarmBis program.

Senator BARNETT—We have heard of it. Tell us about it.

Mr Reid—I have a summary of what is going on in Victoria at the moment. There is plenty of information from Canberra on the web site. FarmBis is federally driven and state funded. It has an annual budget of \$8 million—\$4 million from the federal government and \$4 million from the state government. There are DNRE officers and all sorts of people around the countryside promoting this FarmBis program. It subsidises training for farmers in the rural area. In Victoria, after 12 months, they have expended \$1.8 million of their allocation. This is going on for two years. I have a few statistics here. I have not had a chance to research the Commonwealth figures because of other things; I am using the state figures. This is an excellent program because it profiles the rural industry. However, the mythology they are using to get at the grassroots scares me.

There are something like 400 parasites hooking onto the money in Victoria. I call them parasites because anybody can come and get an approved educational program and run it in a small area. Unfortunately, the parasites home in on what we call government grants. I am coming back to the point now of supporting the BEC as an organisation which is an umbrella over the states. Any money that would come from a government grant—we have an example with the tax department and the GST—should go to an organisation that administers at the top and where nobody is on the gravy train; where it is results orientated. I have a copy of the *Weekly Times* here that I will table or you can take it and put it in your too hard basket or wherever you like. It has a really good profile of what I am talking about: that every man and his dog is on the take when you look at the seriousness of it. The Rural Finance Commission of Victoria were the responsible body in Victoria and they have branched it out. That is what we are trying to avoid.

Whenever we see federal or state grants, they go through a complex situation where everybody can have a grab, instead of there being established conduits, as Senator Barnett was talking about—what are the direct conduits?—and making it a responsibility. I think Colin has

alluded to the success of the GST program. We would use that at BECs as a shining example of what can be done when the conduit is established in a credible way—where there is accountability, where it is results orientated and where people are not allowed to get on the bandwagon. I suppose I have sounded a little bit political in this. It is an opportunity that we appreciate. You are right, Senator, in saying that the conduits do not exist; they are tokenism. You have to get on your hands and knees to plead to your small business unit up in Canberra. We have to try to get ourselves recognised. I know other groups are the same. They have flocked up there in name only but there is nothing on the ground.

Senator BARNETT—Thank you, Mr Reid. Mr O'Brien, following through on that, do you have a charter that you could send to us to have a look at?

Mr O'Brien—I do.

Senator BARNETT—This is an area where I think there is room for improvement—and that is what we are fleshing out a bit—to get that conduit working so that the voice of small business gets through where it needs to. We talked earlier in the day about small business programs that were working, and you indicated in your opening comments that some of them were not working and you were not happy about them. You mentioned that there is a need for the Office of Small Business to have a more proactive national strategy of support and assistance to small business. Do you want to flesh that out a little for us?

Mr O'Brien—I am a strong believer that, in a country of 20 million people and where I see huge duplication and inconsistency of service delivery, we have got to have something driven from the top—from the federal government. As it is, it is state driven, and there is a lot of inconsistency and duplication of programs. I would like to use the examples of the United Kingdom and the United States. The United Kingdom went through a major review of their small business services back in 2000. It is available on a web site and I have got some information here. The annual budget for their small business services, which they have a range of programs for and which includes an equivalent of the BEC network, is roughly \$700 million, depending on what the Australian dollar is worth. In the United States, the Small Business Agency has been going for 40 years, and its annual budget is \$1.3 billion—again, for a range of services. I have included some of their programs in that document I put in earlier. The Office of Small Business annual budget is \$15 million and that, to me, reflects the huge difference. No matter how much you talk about the programs we offer throughout Australia, it is pretty small by comparison. In my view, we do not really do much to support small business here in Australia, particularly at a national level. We talk about it, but we do not actually support it.

Senator BARNETT—I will conclude with one last question. The mentoring program is one which you support and which I think is tremendously beneficial. We have something in Tasmania called Mentor Resources Tasmania—you may have heard of it. I know they do a good job. I was wondering if you have worked out some sort of formula or model for encouraging mentoring for small businesses in Australia?

Mr O'Brien—In the submission I put to the Office of Small Business a couple of months ago, I suggested that there be a national mentor program, similar to that which exists in the United States, which is SCORE—Service Corps of Retired Executives. It is funded by the Small Business Agency which sets up outcomes and guidelines but SCORE administers it under a

contract for service. They have a similar program in the United Kingdom, which they piloted a couple of years ago and which they are now going to support and expand. I suggest that we should have one here in Australia which would have some guidelines about who would be mentors and what the requirements are to become a mentor. There would need to be some sort of a registration process—although not something that is going to become bureaucratic and need additional training—which is coordinated nationally so there is a consistent set of standards—

Senator BARNETT—But how is that going to be implemented? When you say ‘coordinated nationally’, do you mean through the Office of Small Business, the BECs or the area consultative committees?

Mr O’Brien—The Office of Small Business have said that under their present funding arrangements they could not see that they would fund it. I do not see who else would fund it; I think they should fund it. But I do not know whether or not they would administer it or, for example, the BECs would administer it. It could be funded under a national contract. You could draw together a lot of existing mentoring programs that are already in existence. That would be quite simple to do, and then you would have an overarching approach.

Senator BARNETT—Thank you very much.

Senator MURRAY—Your call for a more strategic approach from the Commonwealth in your submission has the problem, at its heart, of constitutional responsibility because, by and large, small business responsibility, in terms of service provision, has been regarded as more of a state responsibility than a federal one. I think that is a weakness.

In Western Australia, governments over many years have supplemented the geographically based organisations—which are business enterprise centres, area consultative committees, regional development commissions, industry sectoral based business organisations and the state based bureaucracy—with something called the Small Business Development Corporation. It is an independent statutory body which does surveys, gets information, creates data and is a one-stop shop for information, including web based information, on licences, fees, charges, systems and programs that are available. It acts as an advocate. It is not a political body; it is very much independent. It is triennially funded. It seems that whatever is in place now is not effective and sufficient, either in channelling information up to the policy makers, legislators and bureaucrats or down to all the hundreds of thousands of small businesses. Are you aware of the SBDC in WA and do you think that sort of organisation is helpful in the overall approach you are advocating?

Mr O’Brien—I am aware of the SBDC in Western Australia and the programs that they are involved in. At a state level, I think that works quite well and they provide good support, but at a federal level there is still this barrier. In the United States the federal government funds a lead agency in every state—that is the equivalent of BECs—and that lead agency then funds the equivalent of BECs, what they call SBDCs, small business development centres. Each of the SBDCs must find matching funding either from the state or local government. I could easily see a model evolve in Australia where the Commonwealth becomes involved and provides funds so there is a consistent approach across all the states. The states or the local BECs could then

obtain matching funding so there is a contribution both from the Commonwealth government and from the state or local government.

Senator MURRAY—If we were a senate committee in the United States having a look at small business, would there be less complaints than the number we have experienced concerning people not having access to information or access to sufficient information for small business? Has it had the effect of reducing some of the problems and complaints we have had in Australia?

Mr O'Brien—When small businesses have a problem they do not want to wait a week to be able to find out the answer. They want to know where they can get it straightaway. I could use Victoria as an example and my office, which is in Kew. If there is a local business in Kew that want to sort out a problem, who do they phone? They phone a government information line where they get information or referral. They want to be able to talk to someone who is a business adviser who has been there, done that and knows what they are talking about. They want to be able to talk to that person within maybe 24 or 48 hours, or maybe on the phone at that time. That sort of structure, the McDonald's approach, is by far the most effective way of resolving those problems, because it is a starting point for that business to find out what they need to know. They may not know what they need to know, but at least it is a start and from there they can then go to other sources. But if they do not have that initial source they are floundering; they may not even bother to find out, they may just go along and not do anything or break the law. That structure will never resolve all the problems, but if you are in small business in the United States you go to the SBDCs, that is known. They have been in existence for 40 years and that is where you start—with that community based organisation.

Senator MURRAY—I may have misunderstood it, but my impression is that that is exactly the role that the SBDC is playing. Even though it has a lot to do with the state, it is very conscious of federal programs and indeed coordinates some of them. Yet there are still all those problems with small business. One of the suggestions put to us, both in Western Australia and in Victoria, is that local government should get more involved in a coordinated and reactive sense as another form of available service. We were given the example of the southern—

Senator BARNETT—Southern area development corporation, or something.

Senator MURRAY—Yes, something like that. It involves three councils in the southern part of Perth that work on this basis. Do you end up with duplication and difficulties? What is your reaction?

Mr O'Brien—I could not support local government getting involved in—

Mr Reid—Not in Victoria, thanks. The sooner we get rid of councillors and go back to administrators the better off we would be.

Senator CONROY—As a former councillor, I will not take that personally.

Mr Reid—Well, you should, because you would think about.

Mr O'Brien—In the United States and the UK, the equivalents of the BECs are the focal point for small business services. Once you start to dilute it and have local government or another agency involved, small business does not know where to start.

Senator MURRAY—Do you think it needs to be streamlined?

Mr O'Brien—Absolutely. That is what happened in two years in the UK. It is so that people know that that is where you go for small business support. You strengthen that with a whole range of programs and services at both Commonwealth and state levels, and they then become the focal point. Local government ought not to be in business advice; they are government. The BECs are community based, separate, independent business advisers; they are not government driven and they are not political. That is where the service should be on the ground.

Senator MURRAY—But you need government funds.

Mr O'Brien—Yes, because business will not pay for it. That has to be supported.

Mr Reid—A lot of small businesses cannot pay for it. They do not have the flexibility in their budgets.

CHAIR—I understand what you are saying but, to be fair, we had a business roundtable in Perth on Friday morning at which there were a number of individual business owners, representatives of business organisations—I think including your own BEC in the Perth region—along with the office of the Small Business Development Corporation, which is a statutory body. We asked that group whether it was better to funnel support for small business through one channel or have a multitiered approach. I thought the summary view of the roundtable—though it might have been a heated discussion—was that it was better to have a multiplicity of organisations delivering services rather than delivering them through one single channel. They thought that had a better capacity to cover niche areas as well as covering issues in the broad.

Mr O'Brien—It would depend upon what service you were talking about when you say 'having different approaches'. BEC equivalents will not get to all businesses, but I do not think you can have the service that a BEC offers replicated in a number of other places. You might have something slightly different through a local council. It does not sit well with me to have a government employee providing business advice. They need to be independent and experienced, and that is not the role of government employees. They can provide some support, but you would need to define that. To be honest, I am talking about something that needs substantial review, which would take six or 12 months, to really look at this. An inquiry like this may help but, until such time as we do that sort of review and look at the services across the country, I think we need to do a lot more to be able to get it right.

Senator MURRAY—The three councils that got together in that area said that they wanted to promote regional development in their councils. So they set up a separate body—separate offices—with people with experience, whose job was to bring business in, find out what services business needed, assist home based businesses in finding their regulatory feet and that sort of thing. They thought that met a need.

Mr O'Brien—I think what you have described is what local government do, and what they do well. But when it comes to sitting down with someone, looking at what they are specifically going to do and providing business advice to them—

Senator MURRAY—No, they do not do that.

Mr O'Brien—that is the BEC role. But I support those functions of the local council as you have explained them.

Senator MURRAY—We might be talking at cross-purposes, because our view of multilayering—or the view that has been expressed to us of multilayering—depends on the service that is needed. Obviously, you are not advocating doing away with industry associations or that sort of thing. You mentioned the monetary figures for the UK and the USA. Have you done any work to translate those into what they would mean for Australia by scaling them down?

Mr O'Brien—No. I was in the States recently and I tried to extrapolate the support they provide into the Australian equivalent in dollars. Then I looked at the UK; they have much less population than the States and they are still spending \$700 million. So if you looked at Australia you would easily come up with a figure of \$50 million or \$70 million in support. It is now \$15 million, and I think that would still only scratch the surface in terms of the support you could provide. But it depends what services and programs you would offer.

Senator BARNETT—But that is federal government money, with respect, isn't it?

Mr O'Brien—Yes.

Senator BARNETT—It does not include the state government support for BECs.

Mr O'Brien—Across the country, about \$10 million is provided for direct support to BECs through the states at the moment.

Senator BARNETT—That is another \$10 million?

Mr O'Brien—Yes.

CHAIR—Does that take into account the funding of ACCs and various other organisations?

Mr O'Brien—No, it does not. It is direct support services and programs to small business. Some of the funding for support services to small businesses in Australia is probably buried in a number of different organisations such as NOIE—which, again, creates another issue. It is scattered through various departments.

CHAIR—AusIndustry.

Mr O'Brien—AusIndustry tends to be at the upper end. I am really talking about the micro end, which is where 85 per cent of them are located.

Mr Reid—We did have a small business development corporation in Victoria for many years, but it has now been assimilated into regional development. It lost its status. They changed the legislation. It was a statutory body. The rules of that body focused on information. I think there are three things that we tend to confuse here. Economic development, as the good senator said, was a good example of councils getting together with economic development units and getting development in their region. That is an issue, and that is one sector. The next sector is information, and there is an overload of it from both the federal and state governments, in particular, on web sites and so on. You could spend a week printing out information from web sites, but it has to be interpreted.

Senator BARNETT—At least a week!

Mr Reid—At least a week. Every week we get a notice saying that the web site has been updated. How do you expect small business to cope with that? We are coming from the grassroots: what assistance does this small business person need? He does not want information; he has an overload of it. He wants to know the cure to his problem. In the same way as you go to the doctor and ask for a prescription, he wants the cure. We are dealing with the cause of the problem. That is an issue in itself. There is no delivery of a program funnelled formally through to the federal government. They have all these programs, a lot of them are not coordinated and come from different departments and go in all different directions, but we are not getting down to the fundamental needs.

A client rang me at a quarter to 10 last night, and I was not off the phone until 11 o'clock. He said that he had been to all the government agency web sites, he is now \$30,000 down the drain following the information trail and he is getting nowhere. In one hour, I sorted him out with our network to bail him out of trouble. He is ringing me again tonight, and I think he will be out of trouble. There was no person in the whole system addressing his needs and saying, 'You need a solicitor,' or 'You need an accountant,' or 'You need a consultant,' or 'You need to go to the bank. You need finance.' He was just getting all these promises.

The other day I picked up some information on business plans from regional development, and I have it here. If I were rude, I would say something. It is on the Enterprise Improvement Program from the Department of State and Regional Development. It is a recipe for consultants to make money. I cannot see how the grassroots, the small business person, is going to be better off in the end by going through it—how he is going to make money, pay taxes, employ casually and contribute to the economy. They are the issues—as well as having a viable business—but everything is feeding off him. I just wanted to make that point.

CHAIR—Mr O'Brien, in your submission you refer to a report in 2000 from the United Kingdom. Can you provide us with a copy of that report or the title of it so that we can access it?

Mr O'Brien—I can, yes. The name of the web site is probably easier.

CHAIR—Either way—the name of the web site or a copy of the report. You say in your submission that there are 136 BECs across Australia. Do representatives from those BECs ever get together to do an analysis of what is happening in each of the localities being serviced by those BECs; do they compare notes?

Mr O'Brien—No. The only time we get together is our annual conference. You probably get about 50 or 60 of the business enterprise centres turning up, no more than that. We combine it with the NEIS managing agents and also business incubators, so we have a three-way conference annually.

CHAIR—Is that funded for you?

Mr O'Brien—I ran that last year in Melbourne, and this year it is going to be in Sydney. People pay to attend and we get some sponsorship, including sponsorship from the federal government. We did not get any from the state government last year in Victoria. We may from New South Wales.

CHAIR—One of the issues that has emerged out of this inquiry so far which seems to be a predominant issue across most of the small business people and the organisations we have talked to is the question of lack of managerial skills and training for people running small businesses. Quite apart from the particular skills they have in terms of the products they are producing, many of which they are very good at, there are the actual managerial skills of running a business: how to raise capital, the question of managing cash flow, business plans—all of those basic skills that are seen as being essential to running a successful business. Do your organisations undertake any training in this area? Do you provide any programs for assisting small business on those types of issues?

Mr O'Brien—Every business enterprise centre in Australia provides training programs on all sorts of management topics. As Ian said, that is one of the specialties. We have business counselling, information and training. Training is a key part of business enterprise centres.

CHAIR—How do you deliver these programs? Is it done one-on-one or through seminars? What sort of take-up rate is there from small business for the programs?

Mr O'Brien—Business counselling is one-on-one. Training programs would be in groups of probably 10 to 20, because a business enterprise centre may run a training program that runs over a number of meetings. It may run a workshop or seminar that is a one-off that runs for a couple of hours, so the numbers might vary anywhere between 20 and maybe 100 people, occasionally more. That is one of the core activities of business enterprise centres. When a business comes in and talks to them, clearly a lot of the issues cannot be resolved in a one-on-one session over an hour, so they may suggest an extended training program. That is a core activity of business enterprise centres.

CHAIR—What level of response is there generally to these training programs?

Mr O'Brien—It is hard to explain that.

CHAIR—We hear, for example, that small business people do not have time to come along and engage in training or undertake courses and so forth.

Mr Reid—I believe you have hit the nail right on the head. This is where we get down to the needs of small business.

CHAIR—Being an old chippie, I have used a hammer before.

Mr Reid—Good. I can relate this to my experience over the past 13 years running a BEC. I retired from that in March, I might add. In Bendigo, with a population of 80,000 plus the regional area, I would average over 100 going through a business management program, a night program of 39 hours over a series of weeks. I have just launched one now with Lead On, which is an organisation in Bendigo. We advertised for two weeks and we got 19. I started last night on a small business management program. That is how popular they are. They want them. They are hands-on programs. We have an outcome in this particular program of developing a business plan for their business. They are very popular. We have got to do it fee for service; we get no subsidies.

Mr O'Brien—It is difficult to get a lot of people to come along to training because businesses make snap decisions. Once they are there, the benefit is terrific. But if I could find the secret, as could Ian, to getting all small businesses along to training, I would sell it.

CHAIR—When you have your national conferences of the BECs around Australia, is this an issue that features much in your discussion—the lack of these skills generally among small business?

Mr O'Brien—I have been involved with small business for 25 years. It was a problem 25 years ago and it is still a problem today. I certainly think we can do much better in terms of offering more training to businesses and spreading out the number of training programs much more. It can be improved; there is no question about it. The more it is going to be offered, the more locations, the more it is advertised, the more you will get businesses to attend.

CHAIR—Do you see this as an issue that this committee should focus on?

Mr Reid—Yes, definitely.

CHAIR—How would you rate it amongst the issues that are important to small business?

Mr O'Brien—Very high. Some might say that insurance is the No. 1 issue. Training, education and management would have to be No. 1. There are a lot of issues in relation to that but, without doubt, it would have to be No. 1.

Mr Reid—I might add that, in that training sector, you are going to help them with their other problems: taxation, GST, BAS and insurance, and then the mentoring that goes on. So it is the starting point.

Mr O'Brien—It has to be said that that needs to be coupled with mentoring and business counselling or advice. You cannot do them in isolation.

Senator BARNETT—I was going to ask if it includes mentoring.

Mr Reid—We have just run a pilot program. I was one of six in Victoria who got the program to mentor 25 people. Colin will tell you how successful that was, because he had the

responsibility of managing that program for the Commonwealth. It was a very successful pilot program—it was in Bendigo, anyway.

Mr O'Brien—It was. That was a mentoring program which provided in-depth mentoring to businesses, and it was overwhelmingly successful. Out of that comes other issues like training. You can sit with a business one-on-one for maybe three or four hours, but at some point a lot of them will need to go through a training program which may take 20, 30 or 40 hours. They need that over a period of time. Then they need to come back to the mentoring and counselling. The two dovetail. Here in Victoria it is separated, because there is no government support here in Victoria for business counselling, so BECs in Victoria provide a lot of training but they are not supported for counselling. That falls down because it is only part of it. You need to have both of them combined.

Mr Reid—There is another interesting thing that is happening in Victoria. The state government and the secretary of the educational sector will tell you that they are offering the modular business management certificate, which is 200 hours. I do not think too many active businessmen who are out there doing a job are going to sit down and do 40-hour modules over one, two or three years part-time, because a lot of it is irrelevant to them anyway, and a lot of it is delivered by, with all due respect, TAFE teachers who would not make a bloody living if you put them out there on the bitumen road.

CHAIR—Thank you, Mr Reid and Mr O'Brien.

Proceedings suspended from 3.02 p.m. to 3.20 p.m.

NADENBOUSCH, Mr Bruce Kenyon, Director Industrial Relations, Association of Professional Engineers, Scientists and Managers Australia

RICKARD, Ms Kim, Executive Officer, Association of Professional Engineers, Scientists and Managers Australia

CHAIR—I welcome representatives from the Association of Professional Engineers, Scientists and Managers Australia. Do you have any comments to make on the capacity in which you appear?

Mr Nadenbousch—I appear as Director Industrial Relations for the Association of Professional Engineers, Scientists and Managers Australia, but the submission that was put to this committee is on behalf of not just that organisation but also two others: the Managers and Professionals Association and the Professional Officers Association.

CHAIR—The committee has before it submission No. 2. Are there any changes you wish to make to your submission?

Mr Nadenbousch—No, there are no changes. For the purpose of today's hearing, I have provided to your secretariat a short opening statement with some attachments which we would ask to be incorporated into our submission to the committee.

CHAIR—As there are no objections, that is agreed. 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, Mr Nadenbousch, to make an opening statement.

Mr Nadenbousch—Chair, I take it that you and your colleagues have the statement that we prepared for the purpose of today's hearing. Has that been distributed?

CHAIR—Yes, we have it.

Mr Nadenbousch—I will go to that briefly. We have tried to condense some of the key issues that were raised in our original submission, which covered a number of different points. To preface this, the three organisations involved are industrial organisations registered under the Workplace Relations Act. We therefore bring an industrial relations perspective to this debate; nonetheless, it is a perspective that has been flavoured by the emergence of a small but growing and significant number of our members who have converted to employment as contractors and consultants. We would think that currently around 10 per cent of our members—in figures, about 2,500 to 2,800 members—would be employed in this capacity. It is a growing capacity. Therefore, increasingly over the last three to five years, we have been required to acknowledge the presence of that group within our membership and to attempt to deal with the issues that they raise. Of course, in terms of the matters which this committee is dealing with, it fits squarely within the ballpark of some of those concerns.

This opening statement attempts to focus on several of the key points that we have raised in our more comprehensive submission. The overarching issue that we raise today is the alienation of personal services income matters. They fall into several groups. Firstly, there is the so-called 80-20 rule. We make some comments about that on page 2 of the short opening statement that we have brought to your attention today, which says:

It is our view that the PSI measures penalise genuine independent contractors and consultants by limiting the type and duration of contracts which they can take. Our 2001 survey of independent contractors and consultants—

which we undertook ourselves—

indicated that 39 per cent earned more than 80 per cent of their income from one client and are therefore potentially impacted by the 80/20 Rule.

In many instances, engineers in particular, are involved in contracts that deal with infrastructure assets. Often these are projects which by their nature take longer than 12 months to complete.

Some of the comments that we obtained from members in our survey can be found in appendix 2 attached to the papers which you have. I will take you to one of those very quickly, which is the third comment on appendix 2:

I am a contract engineer (manufacturing) and I move around every year or so. My contract generally runs for more than 1 year as my clients frequently continue to offer jobs when one project finishes because they like my performance. The tax rule will force me to reject new contracts from my existing client if I have been with them for more than say 10 months, and forces me to look for another job elsewhere. Recently, I got a job with (name of organisation withheld) to help with their \$500 million project, which may run for 3 years. The tax regulation will consider me as an (withheld) employee but I am a true contract engineer.

We also draw attention to a recent study by Deloitte Touche Tohmatsu, attached as appendix 3 of the papers that we have presented today. If you look at page 6 of that particular study, there are some further comments on the PSI legislation, opening with:

There seems to be confusion and dissatisfaction among contractors over their tax status.

Then there is some discussion of the outcome of their survey, concluding with this paragraph at the bottom of page 6:

Comments from respondents indicate concern that any long-term contracts may not be able to be extended beyond 9 months, as this will breach the 80/20 rule, unless the contractors get a prompt ATO ruling. They believe that legislation should have allowed the 80/20 rule to be applied to an average over a 3 year period, otherwise a 12 month contract negates the super and car tax advantages of working through a company.

I think those findings and the results of our own membership survey underline the importance which we attach to the problems created by the 80-20 rule. It is the first of the issues which we have highlighted to bring to your attention today. Going back to the short submission we have prepared, there is a panel at the bottom of page 2 which states our position as strongly advocating that the 80-20 rule apply over a three- to five-year period. We are not confronting the legislation, as it were, to have it scrapped; we are putting forward a proposition that the 80-20 rule be amended to apply over a three- to five-year period to reflect the reality of commercial practice for independent contractors and consultants. Our second point is about the results test, at the top of page 3:

We are concerned that the results test emphasises a measurable identifiable result which in many cases precludes the provision of professional services where the service provided is often expert advice in the nature of reports and various other business management services.

If I can interpose here: this point also underlines the whole flavour of professional business management support services in which our members are engaged, invariably as a one-off operation, an incorporated entity, an unincorporated entity—and we will see some figures about this shortly—as a partnership or in some other structure. Professionals sell their expertise. Their entrepreneurship as consultants and contractors is something that they have come recently to consider. In a sense, it touches on the point that was raised by Senator Campbell in discussion with the preceding witnesses here to do with training in management and other business issues. Professionals sell their intellect and their professional skill—and that is packaged in quite a different way. It is not a product that is readily identified; that is the point we are making here with the results test. We advocate that the results test should be extended to enable a report to be explicitly recognised as a product or end result. That is in the panel on page 3 of our submission today.

Point No. 4, which is the third issue we want to bring forward today, has to do with anticompetitiveness and the disproportionate impact of the legislation on women. The anticompetitiveness issue arises from the regulatory requirements imposed on small business compared with the requirements imposed on big business, if I can put it that way, in simplistic terms. That is the first point that we make about that. The second point is a concern that the business premises test disproportionately penalises women, because of their higher rate of participation in the home business and the service sector. The business premises test of course has wider impact than just women; there are many of our male members affected adversely by this as well in this sector, but we are highlighting here the penalty on women. For example, in our own organisation we have a special interest group that we have developed to focus on the needs of contractors and consultants. It is called APESMA Connect. It has almost 2,000 members at the moment. Of the those 93 per cent are male and seven per cent are female. What we say here is that we believe the business premises test should be broadened to recognise home based business as a legitimate way of conducting business because, frankly, many women if given the opportunity would work from home as consultants in areas such as IT, architecture and consulting engineering.

Finally, our 2001 membership survey— at the bottom of page 3—indicated the following breakdown of business structures for independent contractors and consultants amongst our membership: sole practitioners unincorporated, 24 per cent; those operating through a company, 61 per cent; sole practitioners through trusts, seven per cent; partnerships, five per cent; and other, 3 per cent. We have attached on page 4 a comment, which I will not read through, from a member operating through a company structure. The gist of that comment focuses on pretty much all of the issues that the PSI legislation impacts on, the four tests that people are confronted with. We round off by noting that:

The Deloitte Touche Tohmatsu survey notes that survey respondents suggested that a 9-10 month contract would potentially negate the superannuation and car tax advantages of working through a company structure.

This is something to which I referred. Our own feedback supports that proposition. We therefore round off with a proposal, the third proposal we bring forward today:

... that the 80/20 Rule be applied over a 3-5 year period—

This—

would ensure that the advantages of operating via a company structure are not negated.

Today we focus on those several issues. That is not forsaking the matters raised in our more extensive report, but we know that time is of the essence, so in an effort to assist the committee we narrow the matters down to those as being the key issues on which we are concerned.

Senator MURRAY—Some concerns raised earlier today by Micro Business Network coincide with some of your views. One of the questions I put to them was cause and effect. It seems to me that a portion of micro and small businesses have moved into that area because of the add-on costs and add-on regulations which exist for employees. They have either been pushed out by the employer or they themselves have gone out. Those add-on costs include things like WorkCover, superannuation, and regulations about hiring and firing and conduct and so on. Over and above lifestyle choice, new technology, market flexibility and all those things is that area.

The effect was that the government and the parliament accepted the consequence that people who were really employees were kind of free-riding on the community and needed to be made to pay their fair way—again, with WorkCover, superannuation and all that sort of thing. Advocates such as yourself indicate that, nevertheless, the divisions between employees and business still result in inequities and inefficiencies and you have made some suggestions. In terms of the evidence we have received, many small business people are not putting away money for superannuation. One of the propositions that was explored was that businesses of a certain size and after a certain number of transitional years should be required to pay super because, otherwise, when those people are old they may simply lapse back on the welfare system or the pension system. How do you react to the superannuation issue?

Mr Nadenbousch—This discussion could go in a number of different directions. In our experience, there have been arrangements put in place with respect to contracting and consulting which have led to circumstances of exploitation—and superannuation has been part of the consideration involved in that. On the superannuation issue our view would have to be that small business should be required—I define ‘small business’ here as being a business of fewer than 20 employees, which is the Australian Bureau of Statistics criterion—to contribute on behalf of any of their employees at the required legislative level, which is currently nine per cent, and that there should not be any exemption.

With respect to individuals who are themselves contractors and consultants operating perhaps through a partnership or other unincorporated structure, our view would be that, as a matter of principle, those people should have some obligation—perhaps a phased obligation—to contribute to superannuation on their own behalf. We as an organisation provide access to an industry based superannuation fund which is intended to facilitate that occurring amongst our members who are engaged as consultants and contractors. Many of them take up that opportunity, but I could not say that all of them contribute at, say, the nine per cent minimum legislated level which applies to employees at the moment. That is why I say that, as a matter of principle, we would support any view that would be to the effect that people in that sector should be required to make some contribution to superannuation, but that it may be necessary to phase that in because of the impact of the cost of that. I would apprehend that an individual

operating through a company structure—I am not an expert in this area—would, in any event, be picked up by federal legislation and their company, in making payments to them as an employee, would be required to meet the nine per cent minimum levy.

That is not a well-thought through answer, because I had not considered that proposition. But I think the essence of it is the principal position that there should be a requirement for individual contractors and consultants to provide for their own retirement. It might need to be phased in because of the potential impact on cost structures.

CHAIR—On that issue but in a wider sense, to what extent do you have any knowledge of, or to what extent have your members raised with you, pressure being applied to members or their being requested by employers to incorporate in order to avoid the employment obligation?

Mr Nadenbousch—I cannot say that it is a regularly occurring feature, but it occurs often enough to be of concern to us. As an example, several weeks ago I was contacted by a member—this was just a one-off—who had applied for a professional engineering position that had been advertised as such by a company in the private sector. He fronted for the interview and was told that the interview would be conducted not by the company that had placed the advertisement but by another company, with which the prospective employer intended to place the individual. He went through a recruitment process with the client, if I can put it that way; he was selected by the client and offered employment by the client; but the employment arrangement was of course with the first party—the recruiting agency. For the purpose of securing that employment, this individual was required to incorporate and to make provision for his own payments—workers compensation, professional liability and everything else, including superannuation, which relates to the point here. The reason why he contacted us was that he became aware that he was working alongside other professional engineers—full-time employees of the client organisation—who were being paid substantially more than he was. He wondered, frankly, what the hell was going on and why he was not being paid the same rate for what was substantially the same work.

As I said, this does not pop up regularly, but it pops up often enough to be a continuing issue of concern from our point of view. Several years ago we had a major difficulty with a key national organisation in the automotive industry, where there were something like 20-odd professional engineers who were engaged this way. Each of them had to be incorporated. Some of them went through other body hiring arrangements for the purpose of payment of their overheads, so not all of them incorporated but many of them did, simply to secure employment. They applied for a position with company A, they were sent to work with company B, but to get the job with company B they had to either incorporate themselves or work through a hire agency which was separate to the body hiring company anyway. That is a matter of concern for us.

Senator MURRAY—It seems to me, Mr Nadenbousch, that the committee is faced with an impossible task in this inquiry. The community as a whole, from the bottom all the way up through to politicians, say, ‘We want health and safety environmental regulations, accident cover, compensation cover and provision for old age. We want taxes for an extraordinary range of first world expenditures. We demand that people operate to certain high standards,’ et cetera. As a result we are one of the leading democracies and leading economies in the world. Small business, on the other hand, says, ‘Please just get out of our hair.’ All of these things that the

community has demanded and that the politicians have responded to—it does not matter which party it is—are going to stay.

To me, the issue almost comes back to: how can you make all those obligations about how businesses and households are run easy, simple, practical and manageable? I did not see you attend much to that area. If you had to choose the area which you think gives your members the most angst and where better ways need to be found, what would that area be?

Mr Nadenbousch—Based on the feedback that we have had, the key area would be the PSI legislation and, within that, several of the points that I have raised today. I am not sure, though, that that answers your question. What I am talking about are changes to the 80-20 rule, the results test, the business premises test and those sorts of issues, but I do not know that that is quite what you had in mind. Apart from those considerations, I do not know that I can be much of a spokesperson for the small business community in the sense of trying to put myself in the shoes of small business and asking, ‘Where do we start with rationalising the regulatory infrastructure that is superimposed on us here?’ I find myself at a difficulty in trying to do that, because I think there is a conflict of interest from my point of view.

My answer has to be confined to trying to stand in the shoes of members of ours who are essentially single-person operators. Some of them certainly would be owners of small businesses. Some of them may be community pharmacists who operate stores on the street corner and dispense prescriptions. Some of them may be consulting engineers operating a small business, that is, with less than 20 employees. But it is difficult for me to be able to articulate a position on their behalf with respect to regulatory issues other than those which we have focused on. We have tried to do that, as you correctly said, to a limited extent by raising issues such as workers compensation and environmental legislation—matters on which the legislation differs from one state to the next. If I were forced to make any comment at all from the point of view of the small business operator—other than single operators—I think those would be the sorts of areas where I would place more importance.

Senator MURRAY—Let me try the question from another direction. The committee commenced by asking: how can we maximise and grow employment in the sector? But I think it has evolved to not only that question but also to the question of productivity, because you might not have employment growth but you can significantly improve the performance of individual operators or existing businesses. What would you identify as a key area which would improve productivity or employment growth?

Mr Nadenbousch—Productivity in the sector would be assisted by a greater commitment to assistance in business start-up; that is, where do people go to get advice and assistance when they want to start a small business, and how do they successfully operate a small business on a continuing basis?

Senator MURRAY—Would you agree that you would add training and education?

Mr Nadenbousch—Yes.

Senator MURRAY—And the third component is technology—the provision of easy software packages for administrative and compliance systems.

Mr Nadenbousch—Yes, I would add that too. I had not thought of the latter one, but I was certainly going to add the question of training. That is a major consideration. There were a couple of studies that we referred to; one was the Deloitte study, which talks about the importance of training.

Senator MURRAY—In what areas?

Mr Nadenbousch—In management skills, but not so much professional training or professional development. On page 5 of the study there is a little table headed ‘Disadvantages of contracting’. One of the disadvantages that was identified was a lack of training. Twenty-one per cent of the survey participants identified that—that is the fourth largest group. At paragraph 28.1 of our submission we cited another study—*Age Counts: an inquiry into issues specific to mature age workers*. That study found that over 70 per cent of small business owners had not undertaken any form of business management training and that there was a lack of training culture in small businesses. That is an issue, and it is something that we as an organisation have tried to address in a number of different ways which we have discussed in our submission, which I could go to if you need me to do that.

You have added a fourth thing yourself—IT infrastructure. This takes us into the telecommunications area, and the wide availability of broadband access would be another thing that would fit the IT area. Many professionals—engineers, IT people and, to a lesser extent, architects—who operate alone, in many cases will operate globally from Australia. They will win a contract in Hong Kong, somewhere in South-East Asia or the Middle East, and they will do that work from Australia using their own software packaging computer facilities and international IT links. They might never get to see the project that they are actually providing advice on, but nonetheless the work is being done and it is an export from the point of view of the Australian economy. I see those things as being pivotal to productivity improvement.

Senator BARNETT—In regard to mentoring, you talked about the federal government funding support of \$14,000 for a program that you call ‘mentoring online’ and you mentioned the anticipated outcomes of the project. Can you just flesh out how that actually works? You talked about business plans created or further developed and SWOT analysis undertaken, skills gaps identified. How do you do that online?

Mr Nadenbousch—I should have had my colleague sitting here with me to answer your question. As you have seen, we run this completely online.

CHAIR—Your colleague is welcome to join you.

Mr Nadenbousch—Thank you.

Ms Rickard—I look after services for our Connect program. I also manage our mentors online program. In terms of how it works online, we offer a three-month program online which is basically a web site supported by fortnightly email contact over three months. It is a structured program. APESMA is the host and facilitates the mentoring program. We assist in initiating and sustaining the partnerships. We have about 20 partnerships. Skills gaps are identified by the mentees and we match them with mentors who identify their areas of expertise.

Senator BARNETT—So you have a schedule of mentors. Let us say I am a mentee. I am a small business just getting started and I want to get a business plan organised. So I do a SWOT and work out where my skills gaps are?

Ms Rickard—We have a series of structured exercises. First off we require a business plan for them to participate in the program and we have a business plan available online.

Senator BARNETT—They do not come to you with a business plan?

Ms Rickard—They may have a business plan in place already but if they do not then certainly we require that for them to participate.

Senator BARNETT—They complete that online?

Ms Rickard—That is for their purposes. They bring that to the partnership and discuss that with their mentor. That is one of the exercises. A SWOT analysis is another of the structured exercises and there are a series of networking exercises.

Senator BARNETT—So I am doing the SWOT online and I am filling in the gaps—strengths, weaknesses, opportunities and threats. It goes through to you and two weeks later—

Ms Rickard—No, there is a partnership set up so the communication is between the mentor and mentee. We send out fortnightly email communications to facilitate the partnership. We would direct them to an exercise on a fortnightly basis that they would then discuss with their mentor.

Senator BARNETT—When I am online, do I have access to this mentor over the phone, online or what?

Ms Rickard—No. It is email based because it is a national program. For a small business mentoring program to work, it is very difficult to have face to face contact because of the time constraints. This is a national program so we have matched, say, a mentor in Tasmania with a mentee in Sydney, and they have actually supplemented their online communication—their email communication—with phone contact and realtime messaging through ninemsn. It is up to them if they supplement their communication.

Senator BARNETT—And how much communication? It could be minutes, hours or whatever?

Ms Rickard—It can be.

Senator BARNETT—Whatever they determine?

Ms Rickard—It can be. We encourage them to have ownership of the partnership themselves and we make every effort to facilitate the partnership.

Senator BARNETT—So what happens every two weeks?

Ms Rickard—At APESMA, we host and facilitate. We would send out a message saying, ‘You may want to discuss a critical incident. You may refer to exercise 3, which is a networking exercise. You should have, at this stage, set program goals and be working towards those.’

Senator BARNETT—So you have a schedule of programs over that three-month period?

Ms Rickard—Yes, that is right. Three months.

Senator BARNETT—After that three months, what happens then?

Ms Rickard—There is an option of continuing contact, and that is at the mentor’s discretion.

Senator BARNETT—Presumably for a fee?

Ms Rickard—No. It is all done on a voluntary basis. All the people are currently operating small businesses. Often the mentoring programs are run by retired professionals or retired small business persons. Ours is unusual in that all of the mentors are carrying out the exercise on a non-fee basis and are currently operating businesses.

Senator BARNETT—That is fine. Do you actually have a summary of what is involved in that mentor program? It sounds very interesting. Obviously it is interesting enough for the government to support it to the tune of \$14,000 or whatever.

Ms Rickard—Yes, there is a summary available. The website is a public website so it is accessible.

Senator BARNETT—I am just thinking for the committee and my purposes.

Ms Rickard—We can provide that.

Senator BARNETT—Can you send that through to us?

Mr Nadenbousch—Yes, we can do that.

Senator BARNETT—That would be good.

Mr Nadenbousch—Just a status report of where we are at with the project?

Senator BARNETT—Yes—where you are at with the program and what is involved. You just summarised it verbally, but if there is a summary document we can have as an aide-memoire that would be helpful.

Mr Nadenbousch—Yes.

Ms Rickard—Yes, for sure. It is an unusual program, in that it is an e-mentoring program. It is email based supported by a web site, and that is a fairly new thing. The program is being used as a best practice model for a program being set up in the UK for small to medium enterprises.

Senator BARNETT—This sounds incredibly interesting to me. You talk about the benefits for rural and regional Australia. This is how we can tap in there and help them, perhaps. You have recommended that in here?

Mr Nadenbousch—That is right.

Senator BARNETT—Is that what you are saying—that it is an extension of this type of mentoring program for rural and regional Australia?

Ms Rickard—That is the program that we have in place for rural and regional participants, yes. It is a fairly high participation rate for regional and rural.

Senator BARNETT—How is it funded? Which department is funding this one?

Ms Rickard—It was the Department of Employment, Workplace Relations and Small Business. Now it has gone over to Industry and Tourism.

Senator BARNETT—What is the program called?

Ms Rickard—Do you mean the government program?

Senator BARNETT—Yes.

Ms Rickard—The Small Business Enterprise Culture Program funded it.

Senator BARNETT—Yes, I think that is said here.

Ms Rickard—That was set up with funding and will be run annually and will become a member- only service. Because it was Commonwealth funded it needed to be publicly available for the first run.

Senator BARNETT—Understood. Are you aware of other programs similar to that or is this a pilot project for Australia?

Ms Rickard—It is a pilot project for us. There are a few e-mentoring projects in place in universities, but as far as I am aware it is the first one for small business in Australia.

Senator BARNETT—It sounds good, so I congratulate you on your success. Do you want to say anything else about it and your recommendations for enhancing the program?

Mr Nadenbousch—We have made the point in our original submission in paragraph 27.4 that we see some benefit here in taking this program forward as an example of what can be done

and we advocate that, with the benefit of that, government give further consideration for funding for this type of program into the future for small business.

Senator BARNETT—In your view, who should implement it? Obviously yourself in this instance but, if you look at the big picture and have a vision 10 years out, how should we be doing it?

Ms Rickard—Certainly it is of major benefit to have it run by a not for profit organisation. The fact that there is no fee attached to it encourages small business to participate. Having an e-mentoring option rather than a direct face to face meeting is essential for small business because of the time constraints. If you are going to have experienced mentors, experienced small business professionals, mentoring people in business start-up, to get those people to be available for a program such as that you need to have it structured so that they are available. E-mentoring actually satisfies that very well. We have got people participating, obviously, who are still running their businesses. They are not retired. That is a huge bonus for the mentees who are participating and wanting information from people who have been there.

Senator BARNETT—Thank you very much for that.

CHAIR—Thank you, Ms Rickard and Mr Nadenbousch. Unfortunately we are running behind time. We appreciate your submission.

[4.02 p.m.]

CORBETT, Ms Debbie, Small Business Assistance Officer, Albury-Wodonga Area Consultative Committee

McALOON, Mr Patrick Francis, Executive Officer, Greater Green Triangle Area Consultative Committee

NEESON, Mr Timothy Michael, Small Business Assistance Officer, Greater Green Triangle Area Consultative Committee

CHAIR—Welcome. The committee has before it submissions Nos 42 and 44. Are there any changes you wish to make to the submissions?

Mr Neeson—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. Do you wish to make an opening statement?

Mr McAloon—I am the executive officer of the Greater Green Triangle Area Consultative Committee. We are one of 56 Area Consultative Committees throughout Australia. We come under the management of the Department of Transport and Regional Services. The Greater Green Triangle region that we service represents 29 per cent of Victoria, or 12 local government authorities. Ten of those 12 local government authorities are in population decline.

About two years ago, Area Consultative Committees were given funding to appoint a GST Signpost Officer. The role of the GST Signpost Officer was to assist small business and not-for-profit organisations with the implementation of a New Tax System and the GST. In taking on that role, it brought area consultative committees very close to small businesses and gave Area Consultative Committees a greater appreciation of how small business operates. When funding for that position ceased on 30 June, we then received some funding to appoint a small business assistance officer to take on that role.

We find that a lot of people in rural areas go into small business if they lose their job, and in some ways that is really buying a job. A lot of those people are good owner-operators, but the step from being an owner-operator to actually employing people is where a lot of the problems come into effect—problems with the taxation system, WorkCover, workers compensation. We also find that a lot of small businesses, if they are not in a franchise, do not have a good appreciation of advertising and marketing in the marketplace.

CHAIR—Ms Corbett, did you wish to make an opening statement?

Ms Corbett—Yes, thank you. I have given the committee a copy of my speaking points and also the relevant documents relating to the different thresholds that relate to employees. My

comments are drawn from my experience, which consists of 21 years in the Australian Taxation Office up to November last year. This included seven years as a field officer, an auditor and a small business educator. I actually met in excess of 400 small business clients in my role as field officer and auditor. In the last eight months I have been a small business assistance officer and I have individually serviced over 200 clients for the Area Consultative Committee.

In relation to my submission, government legislation relating to employees appears onerous for potential employers and is often seen as additional administrative expense and effort in complying with the legislative requirements. So that often puts small business operators on the back foot when they are thinking about employing. We have heard a bit about it today but certainly the unfair dismissal laws are particularly disturbing for potential employers who do not understand the processes. I find that media reports are often scaremongering in relation to exceptional cases and circumstances of unfair dismissal. The ‘hiring and firing’ seminar which was run in Albury was very good in trying to explain the unfair dismissal laws, but unfortunately it was run during the day and had a \$70 price tag attached to it. So, in an area where there are 5,000 or 6,000 small businesses, only 25 to 30 were represented. Being on the border, it was very confusing for me at the seminar to work out the awards and everything. That is quite confusing for people.

Senator MURRAY—When you say the border, do you mean the border between New South Wales—

Ms Corbett—And Victoria—Albury-Wodonga.

Senator CONROY—You have state jurisdiction in New South Wales and federal in—

Senator MURRAY—It is the same problem that we picked up in a previous committee. The Small Business Association President came from that area.

CHAIR—No, she came from Mildura. She actually had three jurisdictions.

Senator MURRAY—Yes, but she was on the border.

CHAIR—She had South Australia, New South Wales and Victoria.

Senator MURRAY—That is right, and she found it incredibly confusing.

Ms Corbett—If it is confusing for us who come from government structures, you can imagine what it is like for a small businessperson.

CHAIR—Another argument to abolish state governments.

Ms Corbett—Good idea.

Senator CONROY—And expand the role of councils, of course.

Ms Corbett—We also find that there is a lack of knowledge about the free assistance available from various sources, including the ATO, BECs, area consultative committees and business development officers. I do not really know the reason for this. When the GST came in, the ATO had a massive advertising campaign—I was part of the GST field force at that time—and still people are unaware that they can get free assistance from the tax office. It is a challenge to try to work out how to get that message across.

We heard from MBN how home based businesses are coping with council regulations re having employees, car parking and those sorts of issues. I think small business need—and this is a term that has been bandied around for many years—a whole of government approach to employing staff. They need somewhere where they can go to access information about all employer responsibilities and thresholds. As I have outlined in my submission, there are so many monetary thresholds that they have to attend to—and, given that we are based on a border, there are even more—that in the end they just think, ‘Blow it; I’ll just do it myself.’

One of the biggest issues that I am finding with my work as a small business assistance officer—and I am continually feeding this back through our quarterly reports to the Office of Small Business—is the lack of funding for small business. Apart from the NEIS program, which is for unemployed people, the next step is a turnover of \$250,000. I think it would be beneficial to have some form of funding or support—low interest loans, grants or scholarships—for small business operators to expand. This would enable them to employ more people. Submission No. 8 by Mrs Elizabeth Farmer of Mount Barker in Western Australia spoke of small business financial support. I would support her claims in this regard—that it could be linked to the profits reported by business in its tax returns.

I think there could also be subsidised training programs provided for small business. Currently the Albury-Wodonga Business Enterprise Centre offers a certificate IV in small business management which costs \$1,460, which could be considered quite substantial for a small business in a regional area. We could also offer incentives for those operators who do skill themselves in areas of business management, OH&S and employer responsibilities. At the moment, they have the outlay and they may get a better business as a result of it, but maybe some sort of incentive, rebate or bonus could be offered.

CHAIR—Ms Corbett, I pose a question to both of you about the issue relating to marketing because it is raised in your letter, Mr McAloon. This question of provision of management skills training for small business proprietors and the lack of it has become an issue right through all the hearings we have had in this committee both in Western Australia and here. Have either of your councils given any thought as to how those skills can be delivered, the best method to deliver them, who should deliver the training packages if it was agreed to put in place training packages to assist small business, and how generally we can maximise the spread of any training regime that was put in place?

The other issue that goes side by side with that is: should we perhaps start with a certificate for new businesses starting up, like you have just outlined, which would identify them as people who have done this basic training, and move forward from there? Or should we try and capture existing businesses as well as new start-up businesses in the web of any training regime? Could I ask both of you to address those couple of issues.

Ms Corbett—On the first of those issues, one of the things that I have been doing in my program of small business assistance is taking the training out to the regions. My area covers 10 local government regions over quite an expansive geographical patch. I have taken a full-day small business training course in Corryong, where I took the manager of the BEC and someone from the tax office. We went up there and offered a range of topics. On Monday night, I took the manager of the BEC out to Urana, which is a very small country town, and we did a three-hour business planning session, because that was what we got from the progress association that they wanted to know about.

CHAIR—What sort of response have you got to those programs?

Ms Corbett—In Corryong we had 15 participants and in Urana we had 12 participants. In Urana there is a population of maybe 400 people, so it was a reasonable response. It is challenging to get country people to put their toe in the water. They do not trust the government, so they do not trust you. They have to try before they buy and we are hopeful that we can develop that into bigger sessions. Often we find where government funding is centred, if you just offer programs there, you will not reach the people out in the regional areas because they have got commitments, family farms and that sort of thing. So the initiatives need to be taken out to the people.

CHAIR—So you have to take the programs to them?

Ms Corbett—Yes.

CHAIR—Mr Neeson and Mr McAloon, do you have any comments to make?

Mr McAloon—I will ask Tim to talk about a lot of the initiatives that he has done in this area. I think it gets down to the fact that you do have to take the programs out. Because there is the tyranny of distance, in our region we only have two business incubators or business enterprise centres, one located at Warrnambool and one located at Horsham. Tim might like to talk about the type of workshops he has been running.

Mr Neeson—One of the most interesting sessions we have been running was building on the session we call ‘Hiring or firing—are you complying?’, which is based on the session that is run in metropolitan areas and other places by the Department of Employment and Workplace Relations. We kept on getting people coming to us in the small business role saying, ‘We’re good at growing wool, wheat or olives but I am frightened about employing someone. I don’t want to take someone on. What if it doesn’t work out? What if it goes wrong?’ We built on that.

I had previously worked as a GST signpost officer, so I had a very strong relationship with the ATO, particularly with the new business service based in Geelong, and with the people in Moonee Ponds. We got together and we worked out a program based on hiring or firing using that name—‘Are you complying?’ We have pulled together speakers. We have put it on as a free service. We bring together presenters from the Commonwealth Department of Employment and Workplace Relations, Victorian Worksafe and WorkCover authority. We talk about safety in the workplace and what your obligations are in the workplace—the wool shed or whatever it might be—and then the work cover. We talk about the premiums, how that is calculated for particular

industries and that sort of thing. Then the ATO comes in with a further presentation primarily on the superannuation guarantee but also about other employment obligations and issues.

We have run the sessions as two-hour sessions, beginning at six o'clock. So the people we are dealing with have to shut the door at half past five and finish milking, shearing or whatever. We have run it from six o'clock till eight o'clock, put some savouries on, fingerfood. That session has been extremely well received. We started off in Colac. We ran a pilot there where we did not have the ATO. Then we mixed it up a bit. We got to Hamilton, the Southern Grampian shire. Then we went to Ararat and ended up with 67 people, about three weeks ago. It was a sensational session. We did target the farmers a bit heavily there. We have used a different approach in different areas but we are working with the local government in every instance. So it is the Area Consultative Committee, the shire of the Southern Grampians, or the rural city of Ararat, as the case may be. In Ararat we had the regional business association come on board too.

We have advertised it as a free session. We have the presenters from the various places, lots of handouts and talk afterwards, questions. If you are going to hire someone or fire someone in a small town, you are not going to ask publicly, 'How do you go about it?' or 'What are my obligations if it goes wrong?' You talk to the presenter afterwards. We get the feedback from our presenters at the questions afterwards that the presentations are on the money. We have run six of those and, working this week, we have scheduled more. This time we are working with the Woomera business centre in Horsham. We are taking it out to places like Edenhope and Nhill, right out against the South Australian border—the other part of the state. If we get 15 or 20 people there it will be an enormous result. We are not counting numbers but we are trying to get it out in the regions.

In the session I will be talking about the recruitment process—I think we might have sent you a flyer—the obligations of employers and employees, awards or agreements, contracts, unfair dismissal, and avoiding unfair dismissal claims. Then we get to Worksafe, WorkCover, the hotline numbers, what assistance is available and how we contact someone. It is around small business, obviously. We are expanding the session and we will get around the 12 municipalities in the region. In some places, like Glenelg and the Northern Grampians, where you have far-flung shires, we are trying to run two sessions. The success of it is bringing it to the town. It is in Stawell and it is in St Arnaud. We do not have to go to Ballarat or to Geelong or to those major cities. We are taking it out into the regions. People appreciate that we have brought the session out there. The presenters enjoy it. They are getting the questions afterwards. They hand out the card. They have a contact. They know someone in the ATO or someone in Worksafe.

Victoria Worksafe have a program where they will come and do a free audit in your workplace for you, for three hours. You do a checklist beforehand and send it in. It is not reported to the inspectors. They come out and go through and do that audit of your workplace for three hours and tell you what you could and should be doing to make your workplace safer. We had a chap presenting. Someone said, 'How do we go about it?' He said, 'I actually sign them off.' People were impressed to think that the guy who actually approves these—Richard Versteegen—from Victorian Worksafe was the chap out presenting. He has left Melbourne. He is out in rural areas. It is educating the people that way, and the feedback has been terrific. That is one of the great sessions we have had.

CHAIR—And your experience has been similar, Ms Corbett?

Ms Corbett—Yes, certainly.

Senator CONROY—Would you put on more of these if you had more funding? Is it demand driven, or are you just trying to create the demand by getting out there initially? Are you constrained by resources?

Mr Neeson—We were. We have to pay for the Workplace Relations presenters, and that is the way they operate. The ATO come free of charge, and they are very accessible. In the GST signpost role and the relationship I have had with them the field officers have been very generous in coming to us. We could put more on, certainly. I would like to get to smaller groups if we could. There are some very small places where we could get the session running. You have to work with farmers' seasonal commitments, too, and it is hard to juggle those. The secret to it is we have worked with local government, the Victorian government and the Commonwealth government. We have the three tiers working together through the Area Consultative Committee, and it has worked well. Bringing in the business enterprise centre is another layer to it. You get more promotion that way, if it has the imprimatur of—

Senator CONROY—How do you advertise them? Do you get the local newspapers on board?

Mr Neeson—Local newspapers, yes.

Senator CONROY—Do you take out an advertisement or do they write a story that this is coming to town? Are you able to work with them?

Mr Neeson—There is an advertisement that it is coming along and saying that it is free, where it is and how to register. I usually put my contact name down if people do not want to talk to the shire about it, but usually the shire will take the booking for us. It is a joint operation and that gives it a bit more presence, if you like, in the communities. The papers are very generous. We often get an advertorial about it in the local paper, which is terrific. You go through the economic development unit; they know the people who are the players in the towns. ABC Radio are very good. Western Victoria ABC Radio are terrific, even if one morning they did say, 'Go and find out how to fire someone,' at five to seven. All publicity is good publicity, they say.

Senator CONROY—Ms Corbett mentioned the scare campaigns in the newspaper.

Mr Neeson—People are a bit aghast when they find out the penalties are not that big. Over a certain salary you are not tied up and you can't get caught out. It is just undoing a lot of those myths. That is what we have been on about in that session.

Ms Corbett—From my experience, usually you can get venues for free in these country places—say, the bowling clubs. From my experience, the cost has just been \$160 for some refreshments. It is quite minimal.

CHAIR—Have you had any employees as well as employers come along, or has it been all, essentially, employers?

Mr Neeson—It has been mainly employers, but I would say we have had a few employees. In Hamilton we had a principal of one of the accounting firms come along. He came up to me afterwards and said, ‘If I had known it was going to be this good, I would have written to every client and told them to be here.’ I would love to go back there again and say to that chap, ‘We are here next Wednesday,’ or, ‘We are here next month.’

Senator CONROY—Are you finding that it is the myth more than the reality that you are trying to combat?

Mr Neeson—Yes, it is. People are comforted to know that the ATO is here to help. The catchline now is ‘Australian Tax Office—we want to help you succeed’. It is different. In our region there is the presence of the field officers to actually help people. They will come and help you with your record keeping. That has been of great assistance, instead of it being about compliance and people being frightened that they will get a knock on the door.

Senator CONROY—The audit.

Mr Neeson—That is right. I can say, ‘I will get somebody from the ATO to help you this week.’ That has been a great benefit.

Senator CONROY—Unfortunately, they have just hired 2,000 more tax officers out of the budget to come round and knock on people’s doors to conduct audits, so I would keep your head down for a few months!

Mr Neeson—Thank you.

Senator MURRAY—Victoria is the only state—and there are two territories like that—where there is just one industrial relations law. In all the other states, most small business fall under state law. Would you like to see a return to state industrial relations law as well as federal law here? It is not a political question; it is a question about whether—

Senator CONROY—Are you starting to like more complexity?

Senator MURRAY—you want two systems or one, whether you see an advantage in there being two systems.

Mr Neeson—When we are talking about red tape and so on, if we have only got one it is probably better than two. It is one less level for small business to operate with. Which one I am not quite sure. From my experience, all I would say is that, with the presenters we have had from Workplace Relations talking about these issues, what we see there seems to be appropriate enough. I have seen small business people coming away from that and saying, ‘We can follow that. We understand what that was.’ I do not know what the alternative might be.

Senator MURRAY—So you do not think it is a trick question, let me put it in context. Firstly, let me put my own bias on the table: I am very much for just one hire law for the whole country. When I asked the same question in Western Australia, I do not know about the rest of the senators who were there but I got a bit confused as to the response. Sometimes small business seemed to like the idea of two sets of laws and could almost try and ‘shop’ jurisdictions.

Others did not care—which struck me as strange. Others seemed to think it was very desirable to have just one system so that you know exactly where you stand. I was a little confused by the different responses we got. I just wondered how you three, with your experience, felt.

Ms Corbett—From the perspective, in general terms, of mainstream small business operators that are passionate about what they do—be it bricklaying, building, plumbing or whatever—they want it as simple as possible. So I would say, from that generalistic point of view, one system would be easier, because they have still got superannuation, WorkCover and tax to add on to the award, as far as employing somebody is concerned.

Senator MURRAY—Is that what you meant in your submission when you said, ‘Simplify the awards enterprise agreement system so that either Commonwealth laws apply or individual state laws apply rather than the chance of both’? Is that because of that boundary issue we discussed earlier?

Ms Corbett—Yes. The talk I went to was a New South Wales employment and workplace relations talk, and it was just phenomenal. It was really hard to understand because they had the two sets. I thought, ‘If I am finding it difficult, how are the small business operators going to wade their way through this information?’

Senator MURRAY—One of the options I think I heard the workplace relations minister discuss is the potential for the Commonwealth trying to take over unfair dismissals for all the states so that there is just one standard set of laws. I assume from your answer you would like that.

Ms Corbett—Yes. I think it would simplify the whole system.

Senator MURRAY—And do you think you speak for small business in that regard?

Ms Corbett—I would think so. What would you think, Tim?

Mr Neeson—I would have thought, again, the less red tape the better. If we have only got one set of rules to comply with or to negotiate, it would make it easier. On the subject of hiring and firing, just going through those sorts of things is deadly. I can understand the dilemma when you are on the border and you have got New South Wales as well as the Commonwealth. I find that if you have only got one to worry about that has probably got to be better for small business in our area. It is complex enough. We have got enough things we need to work with. There seem to be more and more rules and regulations coming in that affect some of our small businesses. For example, the other day I was talking to a chap, a small businessman who employs half a dozen people; he is a confectionery distributor. As of next year—I do not know the right title for it—there are new labelling requirements where you have to spell out the nutrition on the confectionery. It is going to cost this chap \$20,000. He has got a plant where the paper bags go through and a certain number of lollies go in—250g and all that sort of thing. To put a stamp on the other side of the bag with the nutritional values on it could cost him \$20,000. He is asking, ‘Where do we get \$20,000?’

In the small business assistance officer role, if we could find pools of \$20,000 to help these people it would be terrific. I am having a problem with that. This chap I was talking about is

trying to deal with another rule that has come in. I am sure that there are not too many people who are going to worry about the nutritional value of a jelly bean or a jelly baby when they open the packet, but I can see why the rule has been brought in for that requirement. But this is a chap with a small confectionery business who is employing people and who has distribution vans going to a couple of centres. I think the lollies are all made in Sydney; they are not made in the plant, but he is the distributor.

Senator MURRAY—You make an interesting point concerning the compliance cost. One of the things that made small business hopping mad was the cost of implementing the GST changeover. The government recognised that to an extent by paying over, I think, about \$200 million all told, which came down to a very small amount per small business; but it was a recognition that there was a cost to which it should contribute. The committee has had an idea put to it which is not new but which has not been practised, that legislation and regulations affecting small business should carry with them a cost-benefit analysis and an impact statement.

Another possible idea is that, if governments change things midstream for small business—new entrants are new entrants and you have to face up to it, whatever it is—perhaps they should consider contributing, where it is affordable. I do not know how much they could offer the small business that you refer to that is going to spend \$20,000, but even \$200 is \$200 less. Is there that feeling from small business that they have to cop the cost of a lot of well-meaning change but that the means to fund that is not considered or provided?

Mr Neeson—I think so, Senator. As this fellow said, for a large confectionery firm, that is nothing; they just get new labels printed or put new packaging on their chocolates. But for a small operator it is very much the case. You are probably referring to the \$200 voucher that the GST Start-up Assistance Office had.

Senator MURRAY—That is right.

Mr Neeson—That was a small recognition, but I am sure that small business and people felt that that was at least something. We were out there telling people how to spend it and to make sure that they spent the whole lot, because they could not spend \$110 and then spend \$90 in another shop; it all had to be spent at once. So we said, 'For goodness sake, spend it all in one hit.' The majority of people bought a software program like Quicken for \$160 and had \$40 left for training. It was a real benefit for people. The only exception was that people were learning how to use a computer at the same time and it got a bit mind-boggling for them. If they had waited for e-record, which was free, they could have had the \$200 for something else. It was very generously promoted; you could use it for virtually anything to help your business in that changeover period. There was some recognition, and it was a very valuable tool. As a signpost officer, it was great to be able to say, 'You have got the \$200; use the lot of it; use it wisely.' Then e-record came out, which was a good record keeping system for a small or a micro business that would issue the tax invoice and that sort of thing, so you did not have to buy a lot of sophisticated equipment. But you still needed the rudiments of using a computer.

Computer training for small business was a big thing in itself. People had to come to grips with it. They thought they had to be computerised, when in fact they did not, because they could have used manual records. A New Tax System did put that onus on small business but, by and large, most people adapted to that and have taken up the assistance from the ATO. It is good to

be able to get out and say, 'Here is e-record, I can get one of the field officers to come to your house and show it to you and run through it.' They do use it; it is a very good service.

Senator MURRAY—Mr McAloon, the Greater Green Triangle submission identifies the main concerns of small business as principally being employee related issues. The summary that I have refers to hiring and firing employees, employer/employee obligations, workplace arrangements, unfair dismissal, Workcover, and occupational health and safety requirements.

One of the ideas put to us has been for the development of a system of single payments and delivery services. In other words, small business would pay a third party an amount and that third party would distribute the amounts for WorkCover, insurance, compensation, superannuation and all the various bits and pieces which presently they do separately. There is no market package available for that. If you were interested in that interaction, the CPA spoke about it at our hearing this morning. What do you think of schemes like that, where the administrative burden is taken off small business and, simply for a commission, they pay one cheque to somebody and off it goes?

Mr McAloon—I think it would be brilliant. I do not know if you are familiar with the group apprenticeship scheme. In that scheme small business might have an apprentice but they actually become the host employer. They pay a management fee and the group training scheme picks up the WorkCare and looks after things like arranging off- the-job training, paying sick pay and all those sorts of things. We have also seen in our area a fairly large rise in the number of employers using labour hire companies for the same reasons. If it were a one-stop shop, it would certainly make life a lot easier for everyone. I suppose the cost is going to be the issue.

Senator BARNETT—Firstly, congratulations on your *Business Diary and Resource Book*. It looks very practical and helpful. Secondly, I noticed that the Greater Green Triangle ACC covers a lot of western Victoria. My wife's family is from Terang. It is a lovely part of the world and I visit there regularly. Certainly, it is a wonderful part of Australia. You obviously cover a fair amount of ground and provide an excellent and important service to that community. We do not have ACCs in every geographic part of Australia; they cover a lot of the country but not all parts. In light of the service that you provide to your area and the very big geographic spread, do you think that we should? We are trying to flesh out an appropriate model which serves, helps and encourages small business and which allows them to have a voice and to receive training and so on, because there would, no doubt, be a lot of small businesses around this country that are not served by ACCs. Would you like to respond to that?

Ms Corbett—I think it would be beneficial. In fact, I have often had clients come to me in Albury and they have said, 'I'm about to shift to Queensland; I am going to work with my sons in their software business. Who is your counterpart in Brisbane?' And I will look up my list and say, 'Sorry, we do not have one; the closest one we have got is Ipswich or the Gold Coast.' People say, 'What am I going to do? Where am I going to find the information?' I guess the summation is that you can access the actual government departments in the capital cities yourself, but that means a lot of walking around and searching for people. So I think it would be advantageous to extend the area consultative committee network.

Senator BARNETT—You used the term ‘whole of government approach’ or seeing the big picture. It is our responsibility to think that through, but we appreciate any feedback and comments you have in that regard.

Mr McAloon—Theoretically, every area of Australia should be covered by an Area Consultative Committee. It is just that not all Area Consultative Committees have received funding for small business assistance officers. I would like to make that clear.

Senator BARNETT—Tell me more. How does that work?

Mr Neeson—Of the 56 area consultative committees in Australia, of which there are a number of metropolitan ones—

Senator BARNETT—How many are there?

Mr Neeson—There are 56 Area Consultative Committees in Australia. Forty-seven of those have got a small business assistance officer, which is up from the 44 GST signpost officers. Areas like Ipswich came into the equation, and I do not think they were serviced by the GST signpost officer. All 47 of us are in rural and regional Australia, and I think that was the emphasis—to get the information out. Senator, thank you for your kind comments about our *Business Diary and Resource Book*. That is one of the ways we saw of getting the information from Melbourne or Sydney out to Casterton and Penshurst. There is a whole range of web sites—and that is all right if you know how to use one—and the 13 numbers. That is how we try to get the information out, as well as promoting things like new apprenticeships, Job Network, grantslink and our web site, which is featured there. We must put a photograph of Terang in next year’s diary for you, Senator.

Senator BARNETT—I hope you do.

Mr Neeson—We will try to. We have distributed that to small businesses throughout the region—3,000 last year; this year we went up to 3,500 and they are nearly all out. We have had great response from them. It is a free diary and a resource book, and a small business person can use it in their office for the 12 months.

Senator BARNETT—Just to clarify: the gap between the 47 and the 56 would probably be the city based ACCs—

Mr Neeson—Absolutely.

Senator BARNETT—And they do not have the small business assistance officers.

Mr Neeson—That is right. There are three or four in Melbourne. There is not one in Adelaide; I know there are four regional ACCs in South Australia.

Senator BARNETT—That is understood. Ms Corbett, thank you for taking the trouble to travel all the way from Albury to be with us today. It is very much appreciated. You have all that background with the ATO and you are asking the rhetorical question about why small

businesses do not have a better relationship with the ATO. I think that perhaps one of the answers to that might be that they are not perceived as a friendly, helpful organisation consistent with their objective. Do you think that would be correct?

Ms Corbett—That is what I have thought. I have said to people, when I have told them about the ATO new business service and asked them whether they knew it was available, that it is totally obligation free. I tell them that you get a guarantee from the commissioner that it will not be used for audit; no details are taken. I am thinking that they are going to say—like when I was in the ATO—‘I don’t want them coming in to look at my books,’ but they say, ‘I’ve got nothing to hide. I just literally did not know that the service existed.’

Senator BARNETT—If we got that message out to small businesses, microbusinesses and home based businesses, do you think they would take up on it, or do you think they are so sceptical that they would just think, ‘No, we do not believe you’?

Ms Corbett—I think that as long as the service continued to exist then the word would spread. A lot of the trouble—I know from being with the ATO for so long—is that a lot of initiatives come in, they are there for a couple of years and small business just get used to the idea, and then the focus changes and the service is taken away. That is one of the issues for small business: consistency of service, so they can rely on being able to access a small business assistance officer in 18 months time. I have been in this position for only eight months but I am starting to get a lot of repeat business. People ring me up and say, ‘My e-record won’t print out.’

Senator BARNETT—That makes sense. Would you like to comment, Mr Neeson?

Mr Neeson—I would say exactly the same thing. When the first business activity statements were due, you did not have to look out the window and know it was raining, because you would get all the farmers ring up saying, ‘I am having trouble with this on my BAS’. You could actually tell, because they would all be in doing their BAS. As Debbie mentioned, you get that continuity. People ring up and say, ‘Are you still doing tax?’ ‘Yes, of course I am’. That is from the GST signpost role, but you are identified with that. People look for you. They have got the phone number, they have got the contact, and you are still around. They ask, ‘What are you doing now? What else do you do?’ Our catch phrase was ‘I can point you in the right direction’. None of us were experts at tax; we are not accountants or anything. We came from all parts of the community and we told people how to get help from the tax office. When I would say, ‘I can get someone out there’ and they would say, ‘But we are shearing,’ I would tell them that we will get someone to go out there at eight o’clock at night and it is free. You got to know the field officers. They were fabulous people. I knew the ones that were good at share farming, up in the Wimmera where you have lots of properties.

Senator BARNETT—How else do we sell this message to the small business community? It is okay for you because you have had that background and that contact. I suppose I am a little sceptical as to whether small business actually believes that the ATO is there to help them.

Mr Neeson—Working through the Area Consultative Committee umbrella has been of real assistance to me. There are 14 members of the committee, and I can go to those committee members if I am in Portland or Horsham and say, ‘Who do we talk to? We have got someone coming up. Could we make a presentation or do something?’ With the field days we have that

recognition now where people say, 'Have you got someone from the tax office?' Next week in Hamilton they will be holding Sheepvention. They get about 25,000 people there in two days. It is one of the biggest sheep shows in Australia. The Area Consultative Committee has a stand there with a small business assistance focus. I have got the ATO field officers coming to be on the stand with me. I also have the ACCC coming up and the Australian Communications Authority talking about their mobile phone kit. So we are bringing it together and trying to have that reference point.

Senator BARNETT—It sounds a powerful group, doesn't it?

Mr Neeson—We hope so. We look forward to a successful couple of days. It takes time to bring it together, but it works.

Senator BARNETT—Thank you very much.

CHAIR—Are any of you aware as to whether there is a geographical map of the location of ACCs?

Mr McAloon—It should be on the ACC national web site.

Mr Neeson—Their web site is acc.gov.au. If you click on the states on the map, it gives you the breakdown of the boundaries.

CHAIR—Does it cover the whole country?

Mr McAloon—Yes, it does.

CHAIR—I thought it did. I thought there was one for every area. Thank you very much for appearing before the committee.

[4.47 p.m.]

BREEN, Associate Professor John Patrick, Head, Small Business Research Unit, Victoria University

IACCARINO, Mr Michael, Executive Officer, Melbourne's West Area Consultative Committee

CHAIR—Welcome. The committee has before it submission No. 64. Are there any changes you wish to make to this submission?

Mr Iaccarino—No.

CHAIR—The committee prefers that all evidence be given in public, although the committee will also consider any request 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. Do you wish to make an opening statement?

Mr Iaccarino—Yes. My colleagues from other area consultative committees have preceded our presentation, so I do not have to go into detail about area consultative committees. Suffice to say that our role is to facilitate economic growth and particularly employment creation in the western region of Melbourne, which is a metropolitan region. Our area covers six local government areas: Brimbank, Melton, Wyndham, Hobson's Bay, Maribyrnong and Moonee Valley. One of our key roles is to assist community based not for profit organisations to put up projects that can lead to economic growth and particularly employment creation.

One of the projects that we have funded under the Regional Assistance Program was a project entitled 'Growing employment by identifying and supporting growth businesses'. This project involved employing or engaging a facilitator, through the use of funding, to work one on one with businesses. The aim was to identify those businesses that had the potential for growth, to sit down with them, interview them and assess what their needs were and then to refer them to business services that were available that could help them realise that growth. The data for the submission was predominantly taken from the records of those interviews and specifically from two of the questions that were asked, those being: 'Has the employment mix changed in recent years?' and 'What are the major employment challenges in your business?' I will ask John Breen to talk about the project.

Prof. Breen—This particular project came out of a pilot study that we did last year with one municipality, the Maribyrnong City Council. It started with a survey of business operators in that region, and from that we got a lot of data about the businesses, how they behaved and what their expectations were, particularly with respect to employment. From that, we selected a group of those firms to conduct more detailed interviews with—they were what we called pro growth firms. We worked on the basis of firms that in the previous 12 months had demonstrated employment growth and had sales turnover growth and that had expressed the wish to continue growing. We selected 25 firms and interviewed them in depth. We spoke to them about the sorts of impediments to growth they experienced and issues that would facilitate their growth. Out of

that, we developed this program of putting a facilitator on the road to identify these firms and knock on their doors and talk with them.

Initially, our objective was to perhaps put a person at a shopfront or somewhere where business representatives could come to them. But, in talking more frequently with the businesses, we found that they preferred it the other way around. They said that they did not have time to go and find someone or to look on a web site or to do those sorts of things, but rather that they tend to react when people present an opportunity to them. Certainly, my research over time has told me that small business operators are very busy people and they tend to react to urgent issues rather than being overly strategic and looking forward into the future and making choices that will make their tasks easier. If you present to small business that unfair dismissal or workplace employment issues are a concern, they will turn out in droves because they recognise that it is something that is knocking on their door. We have seen examples with the WorkCover legislation, with occupational health and safety and a number of areas like that. Yet you can put on something on business planning and they will often stay away in droves because that is long term, it is not an urgent thing.

So it was on the advice of the small business operators themselves that they were looking for someone who could come to them, who could be a point of contact to a range of other possible services that might answer their concerns, that we put someone on the road doing that in the pilot project. We had a very short time frame of only 10 weeks with that pilot but, with a further 25 firms, there was some very good feedback—that in fact those firms had support in terms of employment. Some of them were looking for how to find the right employees—and there is more about that in the issues study as well. It also put them in touch with people with IT expertise and a range of other skills. The facilitator we had on the road made the contacts around the region and was able to link the businesses with service providers, making it easier for the business operators. Instead of them hoping to find someone at the end of the phone, the service provider was contacting them. From that pilot project, we then put in an application through the Regional Assistance Program to broaden it across the whole area consultative region. That is where we are at at this point.

Senator BARNETT—Where did you get up to? Did you get support from the regional assistance funding?

Prof. Breen—Yes, we did. Since October last year we have been working across the region. To date, we have had contact with about 88 pro growth firms within the whole region. Using the responses from those interviews, Mike has got details on some of the employment issues that we have siphoned out of the work that we are doing to pass on to your committee.

Senator BARNETT—Do you want to expand on that?

Mr Iaccarino—The data came from asking two questions: the first was about the employment mix, and the second was about major employment challenges. Of a sample of 61 businesses, 87 per cent indicated that they had not changed their employment mix in recent years; however, most expressed concern about employing and supporting staff. Seventeen per cent referred to the costs of employing and supporting staff as an impediment to growth, and they particularly mentioned payroll tax and WorkCover costs. In terms of paperwork and government regulations, WorkCover and legal issues associated with employing staff were

mentioned. Ten businesses referred to issues related to employee attitude, culture or motivation as major employment challenges.

One interesting finding was the tension between the need for flexible labour arrangements and the need to maintain skill levels and quality output. Indeed, a number of small business responses indicated that they needed to employ more casual labour and subcontractors because they needed the labour flexibility to try and maintain or control costs. However, quite a number of respondents said that they were not interested in employing casuals or contractors and that it was very important for them to have full-time, permanent staff because they were concerned that they maintain their skills and produce quality products. I think that was quite an interesting finding: the tension between those two.

The major issue that came out in the responses was recruitment. Thirty-one per cent—or 17 of the people interviewed—referred to difficulties finding people with the required skills, qualifications or training. Another five referred to the difficulty of finding people with the right attitude. Training was mentioned by seven businesses in terms of knowing how to go about conducting a training needs analysis. Twelve businesses referred to industrial relations as a major employment challenge. Issues mentioned were union problems and negotiating enterprise agreements. Only two of those 12 specifically mentioned unfair dismissal laws. On the basis of the data, we certainly think that there is the need for recruitment assistance; perhaps a review of the costs of payroll tax, WorkCover and superannuation; and an education campaign which focuses on the importance of good practice and effective recruitment and training for small businesses.

Senator BARNETT—That is a good summary. Is that additional to the submission you have made today, or is that a summary of your submission?

Mr Iaccarino—It is a summary, yes.

Senator BARNETT—The other question I have relates to the growth firms. How do you identify those? You mentioned them in your introduction; can you outline that process for us?

Prof. Breen—It was easier in the pilot because we conducted a survey. But government regulations have made it more difficult these days to do survey research, because it is paperwork for small business. That is an interesting conundrum: you cannot help them because you do not have the data; you cannot get the data because you are interfering with what is going on.

Senator BARNETT—That is a conundrum, isn't it?

Prof. Breen—It is interesting that the business longitudinal study was cut out as part of the process of cutting some of the paperwork of small business. I think that was cutting off half a leg somewhere along the line, but that is another story. In this part of the project, then, we had to go to the local councils and ask them to point us in the direction of potential growth firms. With the pilot, we had the data and could identify them directly; here, it was a case of referrals from local government representatives. In some cases they were very knowledgeable about the businesses in their area; in others it was, 'Here's our business database. Good luck.' There were up to 3,000 or 4,000 businesses, and there was very little data there anyhow.

The interesting thing is that, despite that range of information and referrals, the outcomes have been that most of the businesses we visited have turned out to be growth businesses according to our definition—they have grown employment or sales turnover in the last 12 months. That has led us to feel that operators of growth businesses are quite smart business operators. They are the ones who see that contacts with these facilitators may provide them with some opportunities; there might be something they can learn and they have their antennas out looking for opportunities. In order to get a visit, you get a lot of knock-backs. Of the ones who accept the invitation for us to come out, have a chat and see whether we could help in any way, 93 per cent of them have had sales growth in the last 12 months and 62 per cent have had employment growth in the last 12 months. So they are growth businesses, despite the fact that we were working from a fairly broad database that did not guarantee whether they were really growing or not.

Senator BARNETT—What size were these businesses?

Prof. Breen—Up to 100 employees. We have tried to keep it from five upwards. There have been a couple of smaller ones.

Senator BARNETT—So you do not have any with fewer than five?

Prof. Breen—There have been a couple, but pretty much we have tried to keep it to that. Because the outcome of the project is about employment growth, we are of the opinion that firms that have stabilised with at least five employees are ones that are more likely to take that next step to grow further.

Senator BARNETT—In Perth and here witnesses have talked about the prevalence of home based businesses, that 60 per cent plus of all small businesses are home based, and obviously a lot of those are sole proprietors or one-person businesses. You have not done any research in that area?

Prof. Breen—The biggest problem we have is finding those people. They do not usually exist on databases and things of that nature. We have the facilitator, who has got time to go to those businesses, so the quicker we can get him into the businesses the more productive this particular project is. We basically want it to work with referrals as much as possible.

Senator BARNETT—That is interesting, because the same issue came up in Perth, where in one local municipality, for example, they did not know where the home businesses were. They could not find out the information about the businesses and their location identity because that municipality was unable to provide it.

Mr Iaccarino—A previous project under the Regional Assistance Program did collect data on home based businesses in a local government area, the Wyndham local government area. There is a report on that work that is available, but I do not have it with me today.

Senator BARNETT—Is that recently done, in the last 12 months or so?

Mr Iaccarino—The research would have been done within the last two years.

Senator BARNETT—What type of report was that? Was it an analysis of those home based businesses?

Mr Iaccarino—Looking at the numbers of home based businesses and what their needs are.

Senator BARNETT—Okay. We might make some investigations in that regard. Thank you very much.

Senator MURRAY—The three issues being raised here are cost, skills and attitudes. Much of this inquiry has looked at family based businesses where you assume that attitudes are fine and costs are fine but skills are an issue. In the area you have been looking at you are expanding out of that, so, although people are family members, if they are owner operators, skills training and development is very important. Nevertheless, there are mainly nonfamily staff if you are going all the way up to the manufacturing definition of small business, which is 100 employees. It has struck me as odd that in this country you have still a relatively high unemployment rate and a high underemployment rate, which means that there should be a good pool of people available, yet you consistently hear both from the government sector—on nurses, for instance—and the private sector that you cannot find people with the right skills and attitudes. Did you explore that area at all in your research, as to what small business experience was there?

Mr Iaccarino—It was not explored in any depth. Essentially the facilitator went out to these businesses and asked them what their areas of concern were in terms of key employment challenges, and this really reports back what those concerns were. I do not know to what degree that facilitator sought to unravel and analyse those sorts of underlying issues.

Prof. Breen—This concern about lack of skills did come up in our pilot. Certainly in the area we represent there are high levels of unemployment yet in the mix between the unemployed and the jobs the match is not there. A number of the firms that we have dealt with are manufacturing but it seems that there are certain skills for manufacturing that are in short supply. How you match that up I am not sure.

Senator MURRAY—One of the ideas around is that, if you can get people out of welfare on to work, you just increase the flexibility and so on. How do you do that? People are discussing tax credits, which lowers the cost to small business whilst keeping the income for the employee higher. But in our judgment, I think, it is likely to be that if you do that without good training accompaniments you have wasted the opportunity. That is one way in which policy makers may address this, but it does not really deal with the issue of the on-costs, the administrative problems and so on.

Mr Iaccarino—In another study looking at youth unemployment, people were saying they cannot find skilled employees, yet they felt that the cost of training young people was a major impost for them and a disincentive for them to do so. They are looking for people, but they want skilled people. There seems to be a disincentive for them to take on people and train them because of the costs involved. They felt very strongly that young people did not even have the basic skills and that they required a lot of training and supervision, which was very costly. Indeed, some of the data that we collected showed a shift towards older people going into apprenticeships and traineeships because they are seen to be more reliable and more stable. They have had some exposure to the work force; they are not coming in cold. The other issue

that came up in terms of young people is that they were regarded as not having a very good knowledge of the work force or very realistic expectations of what work life is about.

Senator BARNETT—Has that been corroborated, that apprentices are older now? Do you know if that has been backed up?

Mr Iaccarino—There is data to indicate that, yes.

Senator BARNETT—Is there?

Mr Iaccarino—Yes. In research at least in our region there is data to support that.

Senator BARNETT—Thank you.

Senator MURRAY—Just to end that line of questioning, this morning the CPA—and I hope I paraphrase them correctly—seemed to me to be indicating that two market innovations, perhaps with government seed funding to develop them, might help in this area. One was an easy payment service, a one-cheque system, which was then redistributed for WorkCover, compensation, insurance, superannuation, payroll tax and whatever else had to be paid out. The other was a kind of software package which might pick up statistical information requirements for government surveys for you to put in statistical returns in some areas. Have you come across that sort of thinking before?

Prof. Breen—Not directly, but certainly one of the things we put in there as well is that, the fewer employees you have, the heavier the burden of the costs. Any way that you try to alleviate that has to be useful. I heard you also discussing the GST. We did some work on the GST introduction costs and how they impacted. Certainly the smaller the firm, the fewer the resources at their disposal and the higher the relative cost for them. You just do not have spare employees so that you can say, 'Go and learn about this, or go and concentrate on that and look after it.' It has to be shared amongst those who are there. Any way that you can introduce a payment system where perhaps somebody else is doing a lot of the running around for you has to be a positive thing.

Senator MURRAY—Of course, there is a personal social cost. If people feel burdened their stress levels go up, their health deteriorates and too much time is spent away from their family.

Prof. Breen—Absolutely. We certainly found that with the GST introduction. There was the direct cost of equipment or whatever, training costs, the costs of hiring accountants or bookkeeping support and also the indirect costs of their time taken away from social activities, family activities and whatever other areas.

Senator MURRAY—But more than that, what are known in IR as the family-work issues of stress and health and sense of wellbeing I think are major issues.

CHAIR—On the issue of training, there are a couple of issues. One is that in a recent Senate estimates committee I raised a number of questions with Job Network. They say that under the new contracts that are being issued with Job Network they will be putting in place a database which will be the most extensive there has ever been, which will identify where the jobs are and

the people with the skills who are available on the job market. I raised that with some people out of industry, who were extremely sceptical about that ever being delivered. There is no way we can prove it until it is actually put in place. But if they are able to achieve that outcome obviously that would be a boost or a boon for many of these small businesses, if they are able to easily identify what the skill requirements are or where the demand is and what is available in terms of the labour market and whether or not there is a skills match in the areas—and this is probably the more important issue of it.

I note that in the training section you refer to the report done for the Dusseldorp Foundation. Have your businesses expressed a view about their proposal for the reintroduction of the training levy as a means of boosting training, which is essentially what the outcome of that report is saying, or wasn't that discussed with them?

Prof. Breen—It was not directly. As Mike said, we have actually taken data we had to present it to this committee rather than specifically doing the project designed to try and answer some of these questions.

CHAIR—That is okay. Are you aware that John Buchanan from ACIRRT has also done a report for the Victorian Manufacturing Council looking at training in the manufacturing sector?

Prof. Breen—I can't say I am.

Mr Iaccarino—Yes, I was.

CHAIR—Have you read that report?

Prof. Breen—Yes, I have.

CHAIR—Do you agree with his findings and do you think that is maybe a problem in terms of the training issue with some of these companies, where he is essentially arguing that companies are so lean and mean these days that there actually is no fat in the companies to do the training of apprentices? They do not have the sort of spare time available from the skilled employees of the company to undertake the training because companies are so lean and mean in terms of their employment practices these days. Is that generally your view about the sorts of companies that were surveyed here?

Mr Iaccarino—It was not really canvassed with those companies, but what he puts forward is certainly feasible. I think there are other issues as well. Another issue perhaps is that they do not see that they want to bear the costs of the training and they are looking for other people to train them and then perhaps they can pick them up once they have been trained. As well as work intensification, there is the whole issue of trying to run a profitable business and more time going into getting the product or the service delivered rather than on the training side of things. I think he does put a reasonably well supported argument forward.

CHAIR—Of course, that is not a new dilemma for us. Historically the skilled trades base in this country has been trained in the public sector, in the utilities and the railways and so forth. With the privatisation of most of those utilities that training has collapsed and the private sector

has not been prepared to pick it up. They have been notoriously bad trainers over history. They have always relied on the public sector training the skills base for them.

Mr Iaccarino—I would make two points. In relation to the training guarantee, I have no basis for this—it did not come out of our study—but just from anecdotal comments I do not know that it was a particularly popular levy in terms of business's view of the levy. So I do not know that it would be welcomed by business.

The second comment I make is in relation to your comments about Job Network providers and what they are going to do. In our region, we have got a project that has been funded specifically to conduct a skills and employability audit. It is a little different in the sense that we want to have a look at skills in the broader sense, not just the technical skills. An element of the employability audit is to have a look at what skills currently exist within our region that perhaps are not being recognised. It also has a future perspective to it. Part of that is to look at what we mean by a knowledge nation and see to what extent we can measure knowledge intensity in various occupations. The forecasting part is to look to the future at what sorts of skills and the level of knowledge intensity we think will be needed in the future. To present this data, associated with the project are what we call tool boxes, which will go onto an electronic database and explain to the various stakeholders, whether they be people looking for work or employers, how they can use this data and how they can contribute what their needs are in terms of current and future skill needs. That is a project that is currently being funded. The big issue, I suppose—and I do not need to tell you about this—is that there is that training lag. You need to be ahead of the game so that you have the people trained when you need them.

CHAIR—Does the survey which is being undertaken include an age profile of the skills that are available in the area?

Mr Iaccarino—No.

CHAIR—There is a lot of evidence, anecdotal and otherwise, to indicate that people 45-plus are being effectively excluded from the job market.

Mr Iaccarino—We certainly expect the data that comes out of that research to inform us and look at the skills that are available in the region across age groups. Our area consultative committee is involved in looking at ways of increasing awareness about the changes in the labour market and the proportion that will be older workers in the future. We are trying to challenge some of the myths about the higher risks of older workers and will conduct some research in that area. We see that as a major area that requires some attention.

CHAIR—When do you think that will be completed?

Mr Iaccarino—I am involved in a project called Working for Ages, which is being funded through the Department of Human Services and VicHealth. We have identified about four projects that we will be pursuing that will be looking at the issue of ageism and what needs to be done to increase awareness. That is happening at the moment.

CHAIR—I have one final question, Professor Breen. On training issues, was there any examination made of the level of managerial skills in these companies that were profiled, or did it

simply focus on the skills of the employees? This has emerged as an issue in both the Western Australian hearings and in a number of the submissions today.

Prof. Breen—I would agree with that. My experience tells me—and it is not directly from this data—that many small business operators are not necessarily good managers, that they are in fact very time poor, that they tend to have their heads down in their business and cannot step back and make more strategic decisions that may save them time and be more efficient. There is plenty of anecdotal evidence of that. Some of the businesses we have dealt with are perhaps some of the more strategic ones. Some of the issues for those business operators are mentors and access to business coaching. It has shown up in some of the data we have.

CHAIR—So they are aware of it?

Prof. Breen—They are aware of it, which I think indicates they are better managers anyway. Those who know what is wrong are better than those who think there is nothing wrong but do not know any better. I would agree that there is still a need for improved management. I cannot say how you do that. I have certainly done plenty of research on small business training and I heard the previous speakers. The best story I have ever heard is that the best way to get training to small business is to smuggle it to them in the format in which those people were doing it—that is, you package it in a way that you are solving a problem for them.

CHAIR—That is a good quotable quote.

Prof. Breen—It is a very good quote, yes. Unfortunately, the chap who created it—Professor Mike Scott from the UK—has now passed on. He was out here in about 1993, and I have used it ever since. Without small businesses recognising that they are being skilled up, you are introducing them to networks, opportunities and a better understanding of what is going on around them, but you are doing it under the guise of solving an immediate problem for them. That is the only way that I have seen for the manager who is just snowed under—they look for an immediate solution for something. Hopefully, you can smuggle a bit more in as you do that.

Mr Iaccarino—The other observation I would make is that, even though these businesses were recognised as having the potential for growth, there were a relatively small number that actually had business plans in place. To the extent that you could associate that with management capacity, it is an observation. I suppose many of them have business plans in their heads.

Prof. Breen—Just under half had them written down.

CHAIR—That is a fair indication. Thank you both, gentlemen, and thank you for coming along so late in the afternoon.

Committee adjourned at 5.21 p.m.