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SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Reference: Small business employment

THURSDAY, 25 JULY 2002

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SENATE
EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Thursday, 25 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, Collins, Coonan, Denman, Eggleston, Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Hutchins, Knowles, Lightfoot, Ludwig, Mason, McGauran, Murphy, Nettle, Payne, Sherry and Watson

Senators in attendance: Senators Bartlett, 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 8.45 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 broadly focus 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; secondly, the special needs and circumstances of the sector, particularly with regard to the capacity of small business to employ more people.

Some of these issues were canvassed by this committee in its inquiry into regional employment which reported late in 1999. The committee acknowledges the vital importance of small business in the Australian enterprise structure and the need to ensure that the sector has the capacity to grow and increase the size of the labour market. Of particular interest to the committee is the challenge of transforming successful small businesses into dynamic medium sized industries capable of driving economic growth and employment. The committee has received submissions from a wide range of small business interests and is conducting public hearings in several states as well as less formal roundtable discussions with local 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, its members and others necessary for the discharge of the parliamentary functions without obstruction or fear of prosecution. Any act by any person that operates to the disadvantage of a witness on account of evidence given before the Senate or any of its committees is treated as a breach of privilege. I welcome all observers to this public hearing.

[8.47 a.m.]

CAMERON, Mr A. Charles, Affiliate Member (Company), Issues Management Consultant, Recruitment and Consulting Services Association Limited

STRAIN, Ms Kaye, Life Member (Individual), Corporate Member (Company), Recruitment and Consulting Services Association Limited

CHAIR—Welcome. The committee has before it your submission, No. 41. Are there any changes or alterations you wish to make to it?

Mr Cameron—No.

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

Mr Cameron—I thank the committee for inviting us to submit today. I shall start by advising that we have provided the committee with a copy of a diagram that identifies the five essential categories of membership of the Recruitment and Consulting Services Association, they being on-hired employee services, on-hired contractor services, recruitment services, consulting services and project outsourcing services. If you do require any particular detail or information on those, I am happy to explain them to you.

CHAIR—There being no objection, the document is tabled.

Senator BARNETT—Thank you for your professional submission; it is nice to meet you again, Mr Cameron. You talked about the high cost of red tape and the paperwork involved. Have you had any involvement with the Business Licence Information Service and that business entry point, and this concept of a virtual department for accessing licences, permits, approvals and other paperwork type requirements needed for the establishment and operation of a general store, or whatever the business might be?

Mr Cameron—As an individual member I have not had exposure to that particular licensing requirement. My colleague Ms Strain might well have had more relevant exposure.

Ms Strain—Yes. Within New South Wales, you need to go through the process to be a licensed agent, and 12 years ago I went through that process to obtain a licence to operate as a personal consultancy.

Senator BARNETT—Obviously that is one way that small business can quickly access the information they need about how to get started and about the sorts of legal and legislative requirements. You have indicated in your submission that there is a complexity and that there is a cost attached to that complexity in terms of accessing it quickly. Do you have any feedback on

how we can make it easier for small business to cut back the red tape so that they can employ more people?

Mr Cameron—From my perspective and the association's perspective, we are very strongly supportive of any moves which could lead to a system whereby legislation is not duplicated across each of the relevant states. At this point in time RCSA members are in the business of employment. Many of them will operate across state boundaries and, as a result, will be exposed to a lot of duplication of legislation, whether that be in occupational health and safety, industrial relations, equal employment opportunity or workers compensation—the list goes on. From our perspective, in the game of employment, where you have a very large turnover, especially in the area of on-hired employee services, it becomes almost prohibitive where a member—especially a small business member—of the RCSA is required to review each legislative and regulatory obligation depending upon regional and geographical positioning. To that end, if we could find circumstances or arrangements whereby we could have one system, maybe from a national level, for workers compensation and potentially for occupational health and safety, which avoids duplication of industrial relations systems at the federal and state level, there is no doubt that would improve the efficiency of operations of our small business members.

Senator BARNETT—How do we actually do that? Are you saying that we should delete one tier of government or that we should just try and streamline the processes of IR or workers compensation? Can you flesh that out for us?

Mr Cameron—In Victoria we currently enjoy a system where we rely on schedule 1A of the Workplace Relations Act. I understand that it is the intention of the state government in Victoria to try and reintroduce another tier of employer relations or, at least, employment minima. I feel it would be appropriate in the industrial relations jurisdiction to create a system where it is all done federally. That would certainly lead to advantages. As an operator in this area, I cannot understand what the real virtues of having a state based system in conjunction with a federal system are. For example, in New South Wales at the moment we have a circumstance—and Ms Strain would attest to this—where we have unfair dismissal legislation which excludes casual employees. Of course, we have addressed this issue before. At the federal level there is a 12-month exclusion, while at the state level there is a six-month exclusion. There are obviously subtleties in the interpretation of that legislation. Depending upon what contract and industrial instrument an individual is engaged under, they may have different rights. It becomes very difficult for somebody who does not have access to cheap and efficient legal advice to comply with those legislative obligations.

Senator BARNETT—Are you representing the national body today?

Mr Cameron—I am.

Senator BARNETT—Is this idea that there should be just the one level a national position? I know you are commenting on Victoria and you have reflected on New South Wales—I appreciate that—but we have responsibilities at a federal level to try and see the big picture and the whole of government approach. Can you confirm your position on that and the merits of either having one system or a simplified system?

Mr Cameron—I will state for the record that the RCSA national body has no formal position at this point in time, but we propose that. However, what I have is exposure to a large number of members and their complaints, so I really provide that directly.

Ms Strain—I am a small business operator and provide in excess of 100 temporaries to the work force. I have seven permanent staff, but I am putting 100 to 120 people out into the work force every day.

Senator BARNETT—What is your business?

Ms Strain—My business is providing permanent and temporary recruitment to the financial services within New South Wales, predominantly to the Sydney market. Those 120 people register with me and many others, and their main intent is to get work on a casual basis. Because I am a member of the RCSA, I am respondent to a state award. I also comply to any of the organisations that they work in. If they are working in a bank, I also comply to the award within the bank—or the insurance company. Then that person can go and work with another firm and be linked into an enterprise agreement, or they can have several awards, if they are not a member of the RCSA. They also have a different award, which would be the clerks award. For the employer, it is quite difficult in relation to the differing rates of pay. It is not only difficult for us, being in small business; it is basically more the end-user that is being confused, as to what they are really entitled to be paid. I guess it also differs for small business. If I am trying to do business for a client who operates in Sydney and in Melbourne, there is the difference and the difficulty again.

Senator BARNETT—That is obviously causing a great deal of confusion amongst the employees about knowing what they are entitled to earn.

Ms Strain—Yes. Also our clients have a frustration, because they can say to me, ‘Why are you charging us so much?’ and I will say, ‘Because I am adhering to the award,’ and state the award and the minimum payment and say that we are paying over the award. Then they will cite another competitor and say, ‘Well, they are paying such and such.’ So there is a great confusion as to what the right rate of pay is.

Senator BARNETT—So the competitor could be paying a different award?

Ms Strain—Yes. Very much so.

Senator BARNETT—Clearly there is not a level playing field in that instance.

Ms Strain—No.

CHAIR—Just to follow that issue through, it is not the award system or the dual industrial relations system that causes the problem that you have just outlined; it is the contractual arrangement between you and the people seeking the provision of your goods—that is, temporary labour. If you are a respondent to the state award, then it is the state award that has the coverage for your employees. You are only paying them under one award. I presume that, when they go and work for a bank or such like institution, whose own employees are covered by a federal award, you get the distinction between what their rates of pay are and what they are

being paid, and what you are paying your employees. It is not the dual industrial relations system that is causing the problem; it is the contractual arrangement that you have with a company to supply labour to them, whose own employees are employed under the federal system while your employees are employed under a state system.

Ms Strain—Yes. The other issue is that we are respondent to the RCSA award, but there are other groups within—that are not members of the RCSA—that can be respondent to a different award or have their own enterprise agreement.

CHAIR—That is true. But that is also a choice for you. If you wanted to have your own enterprise agreement or if you wanted to seek responsency to another award, you could do so.

Ms Strain—Yes.

CHAIR—There is no restriction in the system to stop you doing that.

Mr Cameron—As Ms Strain has correctly pointed out, RCSA not being a registered organisation, it is not bound by any federal awards, or does not bind its members, and there are circumstances in which she could well be providing services under a relevant state award as a result, because she has not been roped into a federal award, whilst the client's same employees could well be working under the respective federal award. We have a level of duplication, somewhat unnecessarily, which, for a small business especially, may well complicate the issue.

CHAIR—I understand that. The only point I am making is that it is the contractual arrangement between the companies that is creating the differentiation; it is not necessarily that that has been imposed on you by the industrial relations system.

Mr Cameron—Correct.

Senator BARNETT—Just to clarify it, they have the freedom to contract in a certain way and, as a result of them exercising their freedom a certain way, you are then potentially subject to the confusion or the lack of competitive advantage.

Ms Strain—Yes.

Mr Cameron—I am not sure quite how much freedom is out there as to how small members provide their on-hired employee services. It is difficult to say how many are covered by federal awards and how many by state awards. Certainly a lot of difficulty does arise when you potentially have two or three different industrial instruments pertaining to an on-hired employee who may well be covered by a state award, who may be on-hired to a client and who may well choose to mirror—and in most circumstances, they do—the terms and conditions of the client. So you have a circumstance where they are trying to comply with the mirroring of the client's certified agreement—their underpinning federal award—but at the same time they have to go back to the small business member and check and make sure they are equal to or greater than the minimum state award requirements. So you have this level of duplicity, which creates inefficiency.

CHAIR—I would make a point in respect of that for clarity of the record. Even if there were one jurisdiction—if you took away the state jurisdictions entirely—the potential for that set of circumstances to occur in your business is not removed at all, because it is possible for you to be a respondent to a federal award covering consulting services. Skilled Engineering has an award, and I think Manpower has an award or enterprise agreement under the federal structure. But it is still possible for you to have an award setting out terms and conditions of appointment for your employees but to have those employees then hired by a company in the financial services sector. It may have been the automotive sector that would be working under an entirely different award under the federal jurisdiction. So the potential for there to be a conflict between the award conditions covering your employees and the award conditions applying to the host company is still there, even if it were only one jurisdiction. I have seen that happen innumerable times in the past.

Mr Cameron—It certainly does not eliminate it, but it does reduce the potential for that conflict to arise. There is no question that it would still be there. If an RCSA member were to have a certified agreement in their own right, it may well be quite different from the client's provisions, depending on whether they chose to simply mirror the terms and conditions of the client. But I certainly take your point. I do not think there is a situation where all of this confusion can be removed, given the complexity of the industry within which we work; however, there are ways in which to minimise the potential for that complexity.

CHAIR—The difficulty with this issue for us as a committee is that there is no unanimity across the employers about what should be the approach in respect of multiplicity of systems. Last week in Perth, for example, people were saying, 'We'd like one system. But then we really ought to keep two, because we don't want to put all hands into the one simple system. We like having our own system in Western Australia, and what if the government changes again? We may get a better system back.' So there is not unanimity. If employers are oversampling on one system, you may have a chance of being able to deliver something like that, but I think there are pretty wide and diverse views amongst the employers and employer groups as to whether or not you should have one or two systems.

Mr Cameron—I would have no doubt. However, for the record, in Victoria there has been a reduction in the level of complication as a result of ceding the powers to the Commonwealth. To some extent also, there is a lot of argument and debate to be had in that area.

Senator BARNETT—Can I follow through on that?

CHAIR—I am sorry, Senator Barnett.

Senator BARNETT—It is not a problem; it is good to have the discussion and flesh it out a bit. Mr Cameron, I want to follow through on your point that in Victoria there has been a reduction in the level of complication as a result of the recent ceding of the powers back to the federal system. Does that mean it is a better system? Does less complication mean there are more opportunities for employment? Just flesh that out for me.

Mr Cameron—I think it is better for small business, and that is what we are here to provide information on. There only four or five minima in the employment criteria, and they do not just rely upon those minima. It allows them to enter into common law agreements or into other

forms of agreement in addition, and it allows them to say, 'We don't have to worry about the underpinning state award, and we have the liberty to be able to reflect our clients' rates and terms and conditions if they so choose.' It does reduce that complexity.

Senator BARNETT—Let me be devil's advocate, because the benefits of a multiplicity of systems did come up in Perth—they do not want too many, but they want to have terms and conditions that are relevant to themselves, whether it be Western Australia or wherever they are. They say, 'We don't necessarily want a centralised system—a one-shoe-fits-all approach—because it does not really work that way.' What do you say to those arguments?

Mr Cameron—I would say that, in every circumstance, I am sure you will find examples where persons feel that the relevant state industrial instruments and the industrial relations system in that state can provide them with certain advantages in each area. It would depend upon the enterprise and the individual circumstances. However, I think that generally the fundamental aspect of it for small business would be that duplicity requires greater attention, it requires greater administration and, in the longer term, it results in greater inefficiency. I am sure that Ms Strain could provide circumstances where there are benefits under the state system, and of having a state system in addition. I would imagine that it is a long-term solution rather than a short to medium-term solution. I am not sure if that answers the question. It is a very difficult one.

Senator BARNETT—There is a view that people do not want a centralised system because it is too cumbersome, but you are saying that setting those minimum standards and giving the business the flexibility to operate, as you do in Victoria, might work.

Mr Cameron—I certainly think that the debate is there to be had—I do not think that you can write it off. In saying that the federal system is cumbersome, of course, I think you could also find the state system cumbersome as well. I would rather have one cumbersome system than two cumbersome systems. Not knowing which jurisdiction you are going to go before in a full range of industrial disputes or unfair dismissals makes it very difficult for a small business party to at least have appropriate representation at an effective cost.

Senator BARNETT—So, drilling down, are you suggesting that it be just a federal system or just a state system, or have you not thought through it that far?

Mr Cameron—We do not have a formal position at this point in time. We are attempting to develop our policies on a volunteer basis as we speak. Essentially, I would not say at this point in time categorically that we favour one centralised system, but I certainly think there is a lot of advantage in doing some level of comparison and case study, whether it be in our industry or in others, to determine the efficiencies that would be gained by considering such an option.

Senator BARNETT—In a different inquiry you have put your position clearly that the unfair dismissal laws are an inhibitor to employment growth. Is that still the RCSA's position?

Mr Cameron—Certainly we were very happy to see that the regulations, as I understand them, were maintained at a 12-month exclusion. We very much appreciate and enjoy a system whereby we can have some level of comfort in not having to worry about the potential for unfair dismissal where there is a genuine casual employment arrangement. Of course, we also

would argue that any simplicity and ‘fair go all around’ measures be maintained in that system, especially for small business, who in many circumstances may not fully understand or appreciate the fundamental principles behind that legislation, which come from the ILO, essentially.

Senator BARNETT—We have had arguments from small businesses saying they probably do not know the full details as to how it works, but there is a fear that they do not know how to terminate staff or that the unfair dismissal laws may be an impediment. Is that true from your perspective, Ms Strain?

Ms Strain—Yes. Because we are in the business of employment, I guess we are well placed—best placed of any small business—to understand the implications of hiring permanent staff and going through an unfair dismissal. So we are quite aware of that. In relation to the casual work force, that 12-month period is beneficial to both the employee and the employer because the employee makes a choice to work on a casual basis. It gives them the freedom of coming and going when they choose and planning their work career. So it works both ways to have the casualisation and the 12-month limit.

From an employer or client point of view, I find that most people are hiring temporary staff due to the very nature of casual work. So there is an advantage for both the employee and the employer in promoting that style of work. Employees can come in and out of a work force at their choice and it is beneficial not to attach that to unfair dismissal. Of course, the longer the assignment the greater the obligation to give the appropriate notice. That is on both sides—where the assignment stretches longer and longer, there is an obligation on the part of the employee and the employer to give notice. But it works very well in a temporary work force. I guess that practice has been increasing over a number of years—more people are making the choice to work part time and casual.

Senator BARNETT—Finally, on the issue of regulation—going back to that for one moment—you have offered to work with the government in terms of cutting back the unnecessary regulations and complications. You have put it in different words, I think, but can you give any specific examples of where that can happen or how you would see that happening, whether it be the RCSA or other business groups working with government to cut back the unnecessary duplication and regulation.

Mr Cameron—I certainly think from an RCSA perspective it would be a great thing to sit down and again utilise some case examples—for instance, Ms Strain’s company—and have a look at the regulations, the legislation, the codes, the standards—the full range of obligations that a contemporary small business employer has. We could try and understand fully why a lot of these businesses are becoming non-viable, which is having the effect of not being able to provide specific, localised and flexible solutions to business. I think that would be a very good starting point. I guess we have all enjoyed seeing the decision of the Australian Industrial Relations Commission in terms of overtime—and a very sensible decision it was. However, there may well be some requirement to have a look at what is happening to small business these days. On one hand, we can all see and appreciate the philosophical and the moral understanding as to where a lot of these regulatory requirements come from. However, on the other side, we can see—and we have seen—incremental increases in regulation over the last maybe 10 or 15 years which, when added together through each department and each state, have resulted in a very difficult compliance obligation on behalf of our small members.

Senator BARNETT—Having spent 13 years running my own small business, prior to February this year when I entered the Senate, I can relate to how you feel and I congratulate you on your efforts.

Ms Strain—What I have noticed over the decade of starting in my own business is the change in the regulations and the compliance. The thrill of being in your own business is getting out there and winning the business. The other enjoyment of being in this particular industry is putting people into jobs. That is where we get most enjoyment. When that is taken away from you and you are spending most of your time in the office instead of out doing the business, working in the business and on the business, you spend more time training staff, ensuring that they are educated in relation to the new legislation. Also, by way of example, I am doing the same amount of business now. Five years ago I had in excess of 100 people working as casuals; I still have that same number but my support staff has grown. I had a bookkeeper working three days a week; now the bookkeeper is working five days, and I outsource my work to an accountant.

Senator BARNETT—What is the reason for that?

Ms Strain—It is purely the increased amount of paperwork, the changes in legislation, and the work that we need to do in relation to computerisation to keep up with the requirements of government. So I guess there is a higher level in terms of education and requirement to support—

Senator BARNETT—But are you talking about IR, workers compensation, occupational health and safety, GST— all those issues?

Ms Strain—Yes, everything—including the Privacy Act. In terms of what I put into a temporary pack five years ago and what I have to put in now, to ensure compliance every person who registers with a consultancy needs to go through quite an induction process as to their requirements to be an employee of mine, because we take full responsibility.

Mr Cameron—It is probably worth adding superannuation to that. It is a very topical issue. I think we raised it before in the submission to the unfair dismissal committee regarding some recent decisions which have added an extra layer of complexity, which is beyond our belief. For example, you can have a circumstance where you have an on-hired employee engaged as a casual and you have to track whether the overtime that they work is usual, regular and consistent. Only then would you determine that you have to pay superannuation guarantee on that overtime. You would almost need to employ a lawyer or somebody to start tracking levels of overtime when you have—even with a small business—a large number of on-hired employees working. It is just mind-numbing the level of administration that would be required to comply—putting aside the issue of the Australian Communications Exchange decision, which means we sit in a world where we do not know whether we are going this way or that way or whether we are noncompliant. In two or three days time, the members are required to submit their superannuation guarantee returns. People have no understanding of which way the law sits at this point in time, because of legal precedents which have not been resolved at this point.

Senator BARNETT—It all sounds quite overwhelming.

CHAIR—Maybe the government has struck on a way to create employment in small business!

Mr Cameron—Funnily enough, I sat there last night and I thought to myself that you may well have a point—but maybe for the wrong reasons!

CHAIR—On the issue of unfair dismissals, we had evidence yesterday from CPA Australia, who said that the issue in that area was not the undue complexity of the laws, but the lack of understanding of most small businesses about just how they are employing people and whether or not they have employed them as permanent casuals or casuals or permanent part-time. They do not understand the employment relationship they have created, nor do they understand the provisions of many of these acts that apply to them. I think they, along with a lot of other people who have given evidence to this committee, say that one of the problems that is created is because of the lack of managerial training that small business undertakes. They just do not understand the raft of issues or the administrative procedures that they have to go through. Is there a similar set of circumstances in your industry?

Mr Cameron—Most certainly. The seminars that the RCSA prepare on unfair dismissal laws are probably the best attended of the seminars that the RCSA prepare. However, I guess all that they do is hit upon some of the general issues. The difficulty with unfair dismissal legislation is that it is not explicit in the sense of ‘Here it is. This is what you are required to do.’ I am not suggesting we need to go down that path but, at the same time, it is open to some level of ambiguity and interpretation. One way in which we could improve this would be rather than the government at a federal level providing seminars and the like in training small business in what is required to comply it should be working more with bodies like the RCSA and providing funding where you get that level of ownership. People will be far more likely to attend an RCSA training session than a federal government sponsored training session directly from the federal government.

CHAIR—Presumably that would also be more specific to your industry and the vagaries of your industry rather than being in a very general sense.

Mr Cameron—Exactly. In our industry, more than any other, it is a very difficult scenario. A lot of people do not understand. You really need to be quite explicit in engaging a person on a casual basis. You clearly need to define whether they are engaged as permanent or as part time, and whether it is fixed task, a fixed term or otherwise. Your point is a very valid one. I think you would also attest to that, Ms Strain.

Ms Strain—Yes. As a member of the RCSA, more and more over the years we rely—and I rely 100 per cent—on the information and the training provided by RCSA, and we attend every training course that they ever put on. The success of the implementation of the Privacy Act through the RCSA to members was just fantastic and we embraced it and understood it. If anyone were to run an audit on our industry, you would see how we have implemented and understood it. I think the RCSA got a bit of a shock as to how much we demanded that knowledge, but they rolled it out. Once again, it was a cost and it is a continuing cost to running a business but, in terms of new legislation being channelled through the RCSA to its members, it worked very well. We do need that constant education. We get a monthly bulletin magazine from the

RCSA and there is a huge amount of reading in relation to changes in legislation. We look to that in terms of keeping up to date, but we still need more.

CHAIR—Coming back to this question of the industrial relations system and whether we have one or two systems—in the seventies and eighties there were a lot of changes put in place in the Industrial Relations Act to make the state and federal systems more compatible and to overlap. There was joint recognition law introduced in the seventies; there was joint representation; there were joint ventures—both jurisdictions could sit on issues where there were conflicts between the tribunals. This was done primarily to remove the sort of conflict we talked about earlier. One of the problems we have had in the industrial relations arena over the past decade or so has been the way in which industrial relations is treated politically—in the sense of it being a political football. To a large extent, it represents an ideological divide between the two major parties. You have had a set of circumstances where laws have been introduced by one party and, when there has been a change of government, those laws have been changed by the incoming government. The consequence of this is a lot of confusion, understandably, not just for small business but for business generally, about just what the various acts say and what the requirements are that they have to meet in terms of the industrial relations environment.

The issue raised with us in Western Australia was that some employers had gone through a very tedious process of adapting AWAs under the state system. They are now either gone or going, so they now have to renegotiate a different set of arrangements with their employees to comply with the state act. I wonder to what extent the problems with industrial relations are as a result of that. Government is becoming more prescriptive in terms of what the framework for industrial relations should be and, to a large extent, rolling back the role of the umpire. I wonder to what extent a lot of these problems might disappear if we actually rolled back the role of governments in the industrial relations arena, strengthened the role of the umpire and let that interaction between the parties resolve the problems and the conflicts, rather than trying to fit people into a more strict ideological type of industrial relations framework. Do you have any views on that?

Mr Cameron—Ideology has clearly had a major impact upon the industrial relations legislation, at both state and federal level. A case in point is Western Australia—and other places—where the change of government has resulted in the cessation of a number of individual agreements. At a federal level, we have seen examples of that as well. We need to understand that, with the changing work force, or with the changing relationships within the general employment areas within Australia, there needs to be some level of flexibility in terms of meeting the needs and demands.

CHAIR—The point I am making is: would it be better if governments took a step back and provided a broader framework and allowed that flexibility to be worked out between the parties or under the jurisdiction of the commissions, whether it is state or federal or with their input? Recently, there have been a number of disputes that have been potentially very disruptive for industries. When they have eventually got into the commission, with the third-party involvement in the process they have been resolved relatively quickly. I think those disputes in part were driven because of the nature of our industrial relations laws and the process that the parties have to go through to get to agreement.

Ms Strain—From a small business angle, it is all about assistance and being able to work quickly and efficiently within the system and the framework that we are used to—without a controlling body or some guidance—if we have to negotiate with a third party. I personally went through the process with the RCSA to work with the FSU to create an award for our association and our industry within New South Wales. That would have been probably about eight years ago, and it was an interesting process to go through. As a small business, I especially devoted a lot of time to that for the members. The outcome was an award that was specifically written for temporary staff, and it was the first and only one of its nature in New South Wales.

CHAIR—Presumably which met the specific needs or terms?

Ms Strain—Yes. We are okay in New South Wales for RCSA. There is one award that exists for respondents to the RCSA, for the casual work force, but it does not exist anywhere else. We were able to do that over the course of a year. There were lots of negotiations backwards and forwards—a lot of my time and a lot of time of individuals—but we got there. The fear that I have personally is that, if we all did that, we would have the situation that we are in at the moment. The confusion that exists, particularly in New South Wales, is that we have respondents to the RCSA award, which is specifically written for temporaries; non-members have to conform to the clerk state award that is not written for temporary staff. Therefore they have to work around the rules that exist in that. Then there are the enterprise agreements and the federal. I can see the advantage of negotiation because eight years ago that did get what we wanted for our members, but it was only state driven. When I work in another state, I have another set of rules, guidelines and so on. I guess I can see the merit for small business: it comes with the control and direction of an authority.

Mr Cameron—For the record, the example that was given with regard to a specific industry award is suitable in certain circumstances, but there are numerous examples of where it is highly complex, just creates huge problems and is totally unworkable as well. I think, again, it is horses for courses—having that flexibility to meet the needs of local regions or areas or specific requirements of particular industries, and subindustries as well. I think it needs to be remembered that it is not always a solution either.

Senator MURRAY—Ms Strain, the issues you discuss of complexity and also consistency are to my mind resolved if Australia moves to just one industrial relations system. At least then people who operate cross-border—and many small businesses do, surprisingly—will have one set of complex laws and regulations to understand instead of two or more. Would you agree with that?

Ms Strain—I do.

Senator MURRAY—What has occurred to me while listening to the two of you and reading your submission is that you and we, as legislators, might be seen as victims of technology. I think it is an unspoken assumption by bureaucrats, governments and legislators that, because computers exist—in fact, business and small business are more capable of taking on complex and difficult-to-interact-with regulation—when we face a complex problem, the typical answer is: ‘Well, let’s design a software package that you can use.’ I would be as guilty of that as anybody else. Do you find that there is that pressure on you? Because you can be computerised

or are computerised, do people expect you to be able to have easier mechanical systems, if you like, to deal with these issues?

Ms Strain—Yes, most definitely. Throughout the last five years it has escalated in relation to the legislative requirement to be computerised. I know this is a state issue but a case in point is that, for payroll tax at the end of the financial year, we were given a disk. There was no written form in relation to an end-of-year reconciliation. The information on the disk was scant. It referred you to the web site and the web site did not have the information, so it was quite frustrating. Speaking to others across the industry, we found that we were all in the same boat in the first year: that area was automated without really communicating to the end user how the reconciliation was to be done. Frankly, it was far easier to do a manual reconciliation than the automated one, but it was clear that they were only interested in responses in electronic format.

In the tax file declarations we fill out we see more and more moves towards automation. The automatic understanding is that that will save you time, but the cost to small business is the infrastructure of training people and getting more computer power in relation to storage and hardware. The superannuation levy change meant that our software developer had to change the automatic payroll system, and that meant changing our software product. Every year we have to go through an upgrade to meet the ATO standards, because they are altering the way in which they want information sent.

Senator MURRAY—If you do not mind telling me, what is the cost?

Ms Strain—For my software upgrade it is \$1,500 per annum. The bookkeeper I had for three days a week I now have for five, and that is purely on compliance.

Senator MURRAY—This committee's main focus is employment—retention, generation and growth. But it has become apparent to me that many of our discussions are about productivity—businesses trying to find ways of making themselves more productive. Looking at training and education, would you say from your experience that, along with a basic understanding of financial statements and management skills, technological skills—the ability to use computers and computer products—are almost a necessity these days?

Ms Strain—Very much so. We place people in support roles in the financial services, and every single person who registers with our consultancy is tested on their computer ability. Within our own staff there is ongoing training in relation to keeping up with the requirements of running a business. So, yes, there is a great requirement. I guess the younger generation got it, but people returning to the work force and the baby boomers are requiring a hell of a lot more training and education to keep up with the skills required to do their job.

Senator MURRAY—That is the sector which needs it most, isn't it?

Ms Strain—Yes.

Senator MURRAY—It struck me as strange that all the surveys indicate that younger people may have literacy and numeracy difficulties and perhaps some educational deficiencies but do not seem to have any problems on the computer side.

Ms Strain—No, they do not at all. It is really about training and education, and the bulk of our work force at the moment is at the more mature end.

Mr Cameron—There are numerous examples of areas where software and technology can resolve the issue of red tape in compliance and whatnot, but I think there are as many, if not more, examples of areas where they will never meet the needs of small business in financial compliance, taxation compliance and other things. We are starting to enjoy more e-learning solutions for compliance under EEO, occupational health and safety and so on. But I do not think you will ever be able to carry out the monitoring process—ensuring that individuals are getting out there and doing it—by virtue of some IT solution. The vicarious liability associated with employing people makes it almost burdensome to ensure and monitor that it is actually being put into effect. We all know that it is one thing to provide training, mentoring and the like but another to ensure that people have taken that knowledge in and are continuing to apply it. That is the ongoing effect of increased compliance and regulatory obligations. There is improvement on one side but on another side there is an area of effect that will never be satisfied.

Senator MURRAY—The committee has been told by numbers of witnesses who focus on different sectors that the consequence of red tape, administrative complexity, the cost of compliance and employment difficulties is an encouragement to people to shift to the black or cash economy. In your industry is that a problem? Are people going outside the whole system, avoiding all the regulation and operating on a cash basis?

Mr Cameron—I think there is always the worry of that. We were having a discussion last night and thought that those who are not members of the RCSA may well get to the point where there is such a flood of regulatory obligations that they may think, ‘Maybe we can just put our heads down and get in there, and get out as quickly as we got in if anything comes to bear.’ I would imagine there is the potential for that to occur to some extent, because it is so overwhelming. It is certainly not prevalent in our industry but I think there are always examples within any industry, and there is the genuine danger that could result. It is all very well for each government department to continue to improve the reporting obligations, and there is obviously justification for those requirements, but at some point somebody has to do an audit of what is happening to the basic small business out there. Let us say you have an operation that covers three or four states: if you genuinely want to comply on every point it would be a mammoth job. You would need to employ somebody to sit there and monitor, using the Internet, all the various legislative changes from day to day.

The RCSA would point out that it never had the intention of providing advice and services in relation to employment legislation but that it has been almost forced de facto to provide that service. We have a very effective volunteer committee system that is being stretched to the absolute limit. That is why we are saying there needs to be greater support for organisations like the RCSA to provide that training. The focus needs to be put back on clearing the genuine hurdles for small business in employing people, which is what this committee is trying to do. All the time you do hear people saying, ‘I don’t want to employ anybody else because, ultimately, it is just too burdensome for me to do that.’ Coming back to your issue, Senator Murray: yes, I think there is the potential for illegitimate activity.

Senator MURRAY—Thank you.

CHAIR—Thank you for attending, Mr Cameron and Ms Strain.

[9.38 a.m.]

SHEPHERD, Mr Steven, Senior Economist and Manager, Online Industry Analysis, Pacific Access Pty Ltd.

CHAIR—Welcome. The committee has before it your submission, No. 48. Are there any changes you wish to make?

Mr Shepherd—No.

CHAIR—The committee prefers all evidence to be given in public. Although the committee will consider any request for all or part of evidence to be given in camera, I point out that such evidence may be made public by order of the Senate. Do you wish to make an opening statement, Mr Shepherd?

Mr Shepherd—Yes. Thank you for providing us with the opportunity to make a submission and presentation today. Prior to going to the findings and specific conclusions from our research, I thought it would be worth while to outline why an organisation like Pacific Access would make a submission on a topic such as this. For those of you who are not fully aware, Pacific Access is Telstra's advertising business and the leading Australian information, advertising and directories company. Pacific Access has a 12 per cent share of Australia's advertising market. We have more than 400,000 customers nationally, and 90 per cent of those customers are small and medium enterprises. We have an impressive brand portfolio. Many of them are obviously household names, including *Yellow Pages* and *White Pages* and the internationally recognised CitySearch, as well as the location and navigation business Whereis and the Internet search brand GOeureka.

Specifically, Pacific Access's main SME and research activities revolve around a number of activities, including the regular quarterly *Yellow Pages Business Index—small and medium enterprises*. We believe that is probably one of the most pre-eminent surveys of the Australian business sector. We survey 1,800 small to medium enterprises each quarter, and we also do a number of major annual surveys. With that survey activity, we are regularly requested by government agencies and departments to do research on their behalf. For example, in only the last 12 months we have done research for the Reserve Bank of Australia on merchants' attitudes towards credit card use, we have done research for Austrade on internationalisation activities and—something I am sure this committee will be very interested in—we are currently in the field doing research on unfair dismissals for the Department of Employment and Workplace Relations. As I said, we also do one-off annual surveys. On Tuesday next week we will release a report on what is probably the major research on small businesses and e-commerce. We do a range of other research.

We have a broad range of actual SME activities. We run the *Yellow Pages Business Ideas Grants* scheme. That incorporates \$150,000 in cash prizes to small to medium enterprises and various mentoring programs for winners and finalists. We undertake a range of other related SME type activities. Very briefly, in terms of the actual research findings, in the preparation of this submission we analysed recent results from the *Yellow Pages Business Index* survey on

issues pertaining to key employment questions. Within our questionnaire, there were three critical questions. We asked, on a regular quarterly basis, for SMEs to identify existing employment barriers. Secondly, we asked SMEs to identify attitudes towards federal and state government policies and how they are impacting on their behaviour. Thirdly, and importantly, we asked SMEs to identify their growth aspirations. Particularly in an area like looking at SME employment trends, a lot of surveys that ask questions of businesses do not understand that the growth aspirations of SMEs vary quite significantly. They are missing a very important ingredient in what really drives SME employment activities.

We then applied a further analysis or effectively a filter to those responses. The key filter or additional range of analysis was that we looked at the responses to those questions in terms of whether businesses were either increasing or reducing employment at the point in time when they responded to those questions. We also looked at the growth aspirations of those companies. From that we identified that, firstly, businesses seeking growth were, not surprisingly, more likely to be businesses actually increasing employment. Secondly, in turn, businesses increasing employment were much more likely to identify employment barriers. Obviously, businesses who were not concerned with growth were less likely to identify employment barriers. Thirdly, we believe the barriers identified by growth businesses should be the priority focus of government policy instruments to increase employment opportunities with the SME sector. Fourthly, we identified that lack of sales was more important as an employment barrier than any specific individual government regulation. Not surprisingly, lack of sales was identified as a more important issue for businesses reducing employment than for businesses increasing employment.

In terms of specific key concerns, the first and foremost issue that we identified as a barrier to employment within the Australian small to medium enterprise sector was taxes. That was a combination of key taxes—not only employment related taxes but general taxes such as the GST et cetera. The second most important issue which was consistent over the four-year period that we analysed was superannuation. The third most important issue acting as a barrier to employment was industrial relations regulations and unfair dismissals. Another key finding that came out, particularly for businesses that were seeking to increase employment, was finding suitable skilled staff. That was a major issue and a potential barrier on the supply side of the equation. In a nutshell, they are probably the highlight findings from the research we undertook based on the *Yellow Pages Business Index* results.

Senator MURRAY—I think the work you do is very helpful for politicians and other people involved in the development of public policy and legislation—so, for what it is worth, a pat on the back from me. Going to the taxes issue, the recent changes in overall tax requirements from the federal perspective are likely to have increased the taxation that is now paid by those sectors of small business that were finding ways to get around tax. The intersection of PAYG, ABN and GST compliance means that opportunities for tax evasion are decreased, so you would expect an increase there. Of course there is the counterargument that the cash economy has not been appreciably dented and might have increased in some areas. Is the reaction to tax a consequence of the quantum—the amount that is paid—or of the complexity of compliance with taxation requirements?

Mr Shepherd—Before I talk about the specific level versus the level of compliance associated with that tax requirement, I will make two general observations from the analysis we have done. The introduction of GST from 1 July 2000 has clearly been a major impost for small

to medium enterprises in recent times. Not surprisingly, we have consistently found with our surveys that the further we go beyond 1 July 2000, the less concern there is about GST and its impact on businesses. We are now starting to see the view of GST as a business impediment generally starting to diminish. That is why we have picked up generally about issues like GST being a critical component of the whole tax mixture.

Interestingly enough, businesses that are increasing employment—and we have focused on them a bit in our survey—are more likely to identify taxes. I do not have a breakdown of whether they are identifying them because of payroll or GST but, given that those taxes are administered by different governments, we indirectly pick this up when we look at the differences between their attitudes to federal and state governments. We have picked up an increased level of concern from businesses increasing employment about taxes more broadly, and that increase was quite noticeable in the last survey we undertook, in May this year. We have identified that concern for businesses that are expanding. On the issue of level versus compliance, we have not recently done any research trying to differentiate what the concern really is. Now that you have raised it, that is a potential research topic we may look at further down the track.

Senator MURRAY—Something that has arisen, on my interpretation anyway, from what witnesses have said is that quite large numbers of small businesses find compliance—introducing and managing systems in a stricter regime—a burden. On the level of taxation, perhaps the secretary will jog my memory if any submission has mentioned it but I have not heard anyone say, for instance, that they thought the corporate tax rate was too high or that the capital gains tax regime was unreasonable. There have been comments about payroll tax, which as you know is a state issue. There have been comments about fees and charges, which are mostly state issues, and there has been the occasional remark about fringe benefits tax—mostly, it seems to me, related to compliance and threshold issues. So I think it is quite important to determine a distinction between fees and charges and revenue raising by local government and the relative state taxes and federal taxes, and to determine whether it is the compliance requirement which is the most onerous and whether that varies significantly by industry sector—for instance, whether it differs from manufacturing to retail.

Mr Shepherd—Just looking at our May 2002 results—and I would probably refer to table 1 in our submission to make this response—they are quite startling in terms of the comparison between those that are increasing employment and those that are reducing employment. There is a commensurate increase in concern about taxation for businesses increasing employment. The implication that may arise from that is that some businesses—and I have not got the specific size—have obviously tripped over the payroll tax net threshold for the first time, so they have been caught up in payroll taxes for the first time et cetera. The additional impost of growth that may now be starting to impact upon them is what may be in part driving that result. It would appear to me that that could be the factor influencing that quite disparate result. As you can see, for businesses that were reducing employment, concern about taxes acting as a barrier was significantly lower than for businesses increasing employment. That is the only response I could make.

Senator MURRAY—Dealing with the second of your three points—again, observations have come to me from the witnesses that we have dealt with so far—superannuation is the one with a strangely inconsistent view. There is some resentment at the nine per cent superannuation guarantee level—that is regarded as an extra cost on employment. Then there is the argument,

‘If we are giving nine per cent, the employees should be required to make a contribution too.’ But, of course, that would automatically mean that the employer would probably have to raise wages so that employees could afford to pay it. That struck me as odd, because it would increase things. But we have picked up that resentment—that employers are solely responsible for the provision of superannuation for employees. Would you confirm that as an opinion you have arrived at?

Mr Shepherd—Again referring to the results that we have outlined in table 1, there is the 31 per cent response rate we got to taxes in May 2002, and when you look at recent trends that is a bit of an outlier. So if you effectively abstract that result from the overall results, I guess the most consistent barrier to further employment growth that we have identified in our survey has in fact been superannuation. That has been a consistent trend both for businesses increasing employment and for businesses reducing employment. But certainly that has been identified as a consistent concern that we have observed right through the four years.

Senator MURRAY—Does the size of the company matter? For instance, mathematically it is quite easy to say that for every 11th employee the nine per cent superannuation charge in fact prevents you from employing one more because it is the cost of one more employee. Do people who are at the two or three-employee level have that view or does it not apply?

Mr Shepherd—In terms of the analysis that I have done, I cannot answer that question. But if you were looking for some follow-up we can do some further cross-tab analyses based on these findings. We can actually break these results down by industry sector, size of business, type of ownership—whether it is a family-run business et cetera—state and territory and metropolitan or regional location. They are the other additional analyses that I can do based on that sort of table. If you wanted, we could actually do a breakdown of the responses to superannuation acting as a barrier to employment to identify whether there are differences in responses between size of business. But that is something we have not done.

Senator MURRAY—Through the Chair, Mr Shepherd, if it is not onerous and if you could provide that to us, it would be helpful.

Mr Shepherd—We can do that.

Senator BARNETT—Is that only on superannuation? The state by state analysis would be helpful, Chair, if that is not difficult.

Senator MURRAY—Whatever you can provide.

CHAIR—Perhaps it is best if I leave it to Mr Shepherd to try and provide us with whatever he can, without giving himself another six months worth of work.

Senator MURRAY—I guess we would want you to interpret it and say, ‘There’s a meaningful difference here or there.’

Mr Shepherd—Yes.

Senator MURRAY—The other question on superannuation which has emerged for me—kind of subterraneously, I think, out of what has been said to us—is the suspicion that quite a large sector, particularly microbusiness and home based business—people who have almost been forced into that as opposed to having chosen that occurrence, and who operate on that basis—are not providing superannuation for themselves. In my view, it is highly unlikely that you can generate goodwill and a saleable business from many home based businesses, and those people are left outside the superannuation net and pose a potential danger to the pension requirements in the future. Have you picked that up as an issue at all?

Mr Shepherd—No, we really have not. In terms of our sample size, we do not really cover a lot of non-employing businesses. Depending upon how you define microbusinesses, if you are looking at non-employing businesses, they do not represent a significant proportion of our sample size at all. Actually, we would not even cover that group. But there are other organisations around that obviously focus on microbusinesses, but ours is more representative of the broader small business sector.

Senator MURRAY—I put it to you, not as a request but just as a jog, that I would be fascinated if you were to do a further survey and ask small businesses if they felt that the new tax system was requiring them to pay more tax than they used to. That is all I have.

Senator BARNETT—Like Senator Murray, I would like to thank you for the survey. I think it is very helpful and contributes with respect to public policy development. I want to follow through on one of the questions from Senator Murray on your definition of small business. You use the ABS definition.

Mr Shepherd—That is right—the employment based definition.

Senator BARNETT—We know that 60-odd per cent of all small businesses are home based businesses and we are also aware that 80 per cent plus are microbusinesses of less than five employees. I am just drilling down regarding your survey. Of the small businesses that you survey—I notice that you survey 1,800 in total in these quarterly reports: 1,200 small businesses and 600 medium businesses—do you know off the top of your head what proportion would be microbusinesses?

Mr Shepherd—It is a significant proportion. In terms of the total—I have the figures in front of me—538 of the total number of businesses we survey employ between one and two employees, 262 employ between three and four employees, 217 employ between five and nine employees and 183 employ between 10 and 19 employees. That gives you the 1,200 small business component. Then of the medium business component, 515 employ between 20 and 99 employees and 85 employ between 100 to 200 employees. That is the breakdown of the sample size.

Senator BARNETT—So, as far as microbusinesses are concerned, there are roughly 800 out of 1,200.

Mr Shepherd—That is right.

Senator BARNETT—So it is not inconsistent, roughly, with the general makeup.

Mr Shepherd—That is right.

Senator BARNETT—Have you collated the microbusiness results or have you just put them all into the small business category?

Mr Shepherd—Yes. With all our analyses, we tend to look at business trends between small and medium when we do those comparisons, but obviously we can break those results down. We have not but, if we had requests to do that, we can do that.

Senator BARNETT—If it is not a difficult thing to do, please do it; if it is difficult, do not worry about it. We have been focusing on, and have heard quite a few witnesses on, home based businesses and microbusinesses as being the key area where employment growth has great potential. That is obviously an area that they think is relevant to us.

Mr Shepherd—Just on that, we find that the differences in the results between the microbusinesses and small businesses are not that significant. I have not brought any of the *Yellow Pages Business Index* results with me. Sometimes we produce those results by size, and the differences between what you have defined as microbusinesses and small businesses are not statistically significant.

Senator BARNETT—We talked about the regulation complexity, the red tape and that sort of thing for microbusinesses. They are suffering disproportionately compared to the larger businesses, because of their size. They have to deal with the same amount of red tape and complications as everyone, yet they are so much smaller. That is why that is an issue.

Mr Shepherd—Certainly. If you would like, we could provide further material to the Senate committee, doing a breakdown between the microbusiness results and the small business results. I have implied, and I would just like to stress again, that the one thing that really stood out from our perspective was that the one key factor which really does drive a wedge between attitudes to employment barriers is this issue of growth aspirations. A lot of people fail to understand that. We are the only survey in Australia that actually asked that question. Sixty-one per cent of businesses—SMEs—want to grow, but 39 per cent do not. If you are listening to that sector, asking questions, trying to identify employment barriers and formulating policy responses, without understanding that 39 per cent of all SMEs have no intention to grow, then you are missing a very important element in this whole equation.

We strongly emphasise that that is a more important filter than the microbusiness-small business breakdown. But we can do that breakdown. In the last *Yellow Pages Business Index* we did, we actually did a lot more intelligence and tried to understand why businesses do not want to grow. We got a lot more intelligence on that. It would appear that a significant proportion of SMEs are in business for a whole range of non-economic reasons. They are in business for family, lifestyle, social, working-hour issues—a whole range of things. The issue that I really wanted to stress in part today is that you have to understand the mindset of those businesses, otherwise, if you are trying to apply certain filters over that and trying to interpret what the key employment barriers are, you may come up with the wrong conclusions, because they do not want to grow.

CHAIR—Is there a differential relationship between micro and small when it comes to the growth factor?

Mr Shepherd—That is a really good question. There would be, as can be seen when we do a breakdown of question 5 on page 5 of the submission. It is under table 3, titled ‘The impact of growth aspirations of SME on employment trends and barriers’. We ask:

Please think for a moment about the future of your business. Which of the following statements best describes your plans?

- We are actively seeking significant expansion;
- We are seeking to grow moderately;
- We are seeking to stay the same size;
- We are seeking to become smaller; or
- None of these.

I guess a response to ‘none of these’ would be a bit of a worry, but we do get those responses! We find—just for a moment thinking between small and medium businesses—that we clearly get a difference in results. Just as we would get differences in results between small and medium businesses, we get differences between the micro end of small business and the larger end of small business.

CHAIR—Would you be able to provide those figures for us?

Mr Shepherd—Yes, we can provide those as well.

Senator BARNETT—That is a good question, Mr Shepherd. The committee has heard anecdotal evidence from home based businesses—meaning businesses with one owner-operator—that in many instances they are the ones who do not want to grow, because they love their lifestyle, they love their family, they want to stay at home and be with the kids or whatever. So a whole whack of those in the 39 per cent might be home based businesses.

Mr Shepherd—That is the point we are trying to emphasise. You could make changes to government policy settings—both to specific government regulatory policy settings and to macroeconomic policy settings—and have no influence whatsoever on their employment decision making.

Senator BARNETT—It is a very good point and one that we need to take into account. Which table is that 39 per cent in?

Mr Shepherd—Table 4. If you look under ‘May 2002’ you will see that we have done a breakdown between businesses seeking growth and not seeking growth and whether they are actually increasing or reducing employment. The overall figure at the end of that table indicates that 61 per cent of businesses were seeking growth but 39 per cent were not seeking growth.

Senator BARNETT—Could you explain to me the ‘Up’ and ‘Down’ columns before that?

Mr Shepherd—We have looked there at all those business in, for example, May 2002 and provided a breakdown of those that said they had increased employment during the quarter ending April 2002. In that example, if 100 businesses said they had increased employment in that period, 77 were seeking growth and 23 were not seeking growth. Those businesses may have increased employment in the short term because of a one-off opportunity or something of that nature, but you can clearly see that there is a very strong pattern of businesses that are seeking growth increasing employment and those that are not seeking growth reducing employment. That is a bit of a no-brainer, but it still needs to be said.

Senator BARNETT—It is a very good observation. You mentioned that the degree of support for federal government policies among employment-generating businesses declined over the four-year period, but you also said that there was a general perception among employment-generating businesses that state and territory government policies were less supportive than federal government policies. It is interesting that business can obviously distinguish between federal and state government policies. We have heard from witnesses who have said that on the whole they would not have a clue about the difference between the three levels of government. Obviously there is a distinction made and they are smart enough to think that federal policies are perhaps a bit better than state government policies, but nevertheless their support for federal policies has gone down.

Mr Shepherd—In our submission I have identified all the questions and the analysis that I based the questions on. You can see that for the last 10 years in every quarter we have surveyed we have asked question 9A:

Overall, do you believe that the Federal Government’s current economic and other policies are supportive of small business in general, work against small business, or have no real impact either way?

Senator BARNETT—Where is that?

Mr Shepherd—That is on the bottom of page 3 and the top of page 4, under the heading ‘Federal government policy impacts’. With all the questions, I have identified specifically what they are. That is question 9A. Whatever the answer—whether they are supportive, work against or have no impact—question 9B says:

Why do you say that?

That is an open-ended question. We code all those results and we do the same for state government policies. Question 10A says:

And, overall, do you believe that your State (or Territory) Government’s economic and other policies are supportive of small business or have no real impact either way?

Then we ask them another open-ended question. You are absolutely right: we have identified a more negative sentiment towards state government policies over a consistent period of time relating to issues like employment barriers, and one can only come to the conclusion that specific state government regulatory requirements—obviously payroll tax, occupational health

and safety laws where they are administered by states, industrial relations regulations where they are administered by states et cetera—have driven that expectation.

Senator BARNETT—Do you release that information, or are you just saying that is what it is?

Mr Shepherd—We identify the key factors which have driven those expectations. Under our survey there is a very clear understanding of different regulatory requirements and at what tier of government that is imposed, so we have no trouble asking SMEs to complete the response to those questions.

Senator BARNETT—Has that been pretty much consistent over your period of surveying since 1998?

Mr Shepherd—That is right; exactly, yes.

CHAIR—Thank you, Mr Shepherd.

Proceedings suspended from 10.10 a.m. to 10.32 a.m.

Committee met at 8.45 a.m.

GLOVER, Dr John Stephen, Associate Professor, Monash University

TRAN-NAM, Dr Binh, Senior Lecturer, Australian Taxation Studies Program, University of New South Wales

CHAIR—Welcome. The committee has before it your submission, No. 68. Are there any changes that need to be made to the submission?

Dr Glover—No.

CHAIR—The committee prefers all evidence to be given in public. Although the committee will 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 understand that you have a PowerPoint presentation to give us.

Dr Glover—We do.

CHAIR—We have copies of the slides and, hopefully, we can get through the presentation fairly quickly so as to allow time for questions.

Dr Glover—We will treat the PowerPoint presentation as if it were slides. We represent a project funded by the Australian Research Council to investigate tax reform in Australia, in particular the impacts of tax compliance costs on small business. In short order, what are the objectives? Essentially, we have identified the fact that tax reform in the last few years has been unfavourable to small business, which I will say more about in the moment. It is suggested in the Ralph documents that there is to be a compliance dividend that will level the playing field.

The question we have set for ourselves is: how adequate is the compliance dividend in counterbalancing the adverse effects of tax reform? Having answered that question, we will look at the subsidiary question: to what extent can the existing system be finetuned or improved without radical change in order to make it friendlier to small business?

There are two academic participants in our project, namely the University of New South Wales's Australian Taxation Studies Program and Monash University's Faculty of Law. We have three industry partners in the shape of the National Farmers Federation, the Council of Small Business Organisations of Australia and Taxpayers Australia. Essentially, the way in which we have addressed the task is to use the industry partners to suggest from within their memberships small businesses whom we can investigate more closely.

Speaking a bit about the tax reforms, you will be familiar with the Ralph reform to the tax system: specifically, abolition of accelerated depreciation, reduction of the company tax rate from 33 per cent to 30 per cent, new methods of valuing trading stock and abolition of balancing charge roll-overs. Many of those things are accounting specific reforms.

They also introduced the simplified tax system, which was part of this compliance dividend and was essentially intended to level the playing field where small businesses are concerned. The theory is that, with the assistance of this SDS system, it will become cheaper to pay tax. At the same time, we are examining the introduction to the GST—a large matter, as you will be aware—because it is associated with the introduction of the Australian business number and the pay-as-you-go system, which replaces provisional tax.

The way in which our methodology has been set is that we are not having a large scale mail-out and survey of Australian small business, largely because we do not have access to the ATO's taxpayer file. We might have got access to it, but to do so we would have to have lost our independence. We can, we believe, supply a much more independent survey by concentrating on fewer small businesses in depth and in that way hold the mirror up to Treasury's estimates of small business reform in Australia. So we are doing qualitative in-depth analysis independently through mail surveys and log books and combining that with face-to-face interviews in situ of small businesses.

We originally intended to get to 40 small businesses, comprising 20 farms and 10 small businesses nominated each by the Taxpayers Australia and the Council of Small Business Organisations. We decided to vary that early on and to considerably increase it to make sure that we ended up with 40 at the end of three years. Now we have something closer to 63. Our focus is on rural and regional Australia, not particularly urban Australia. We have, for reasons given in our submission, chosen the under \$1 million turnover, and we have noted the importance of small business to the Australian economy in the submission.

Essentially, we are looking at compliance costs, defined as they have been in our submission. That ultimately involves time spent on preparing business tax affairs, the cost of employing internal staff, extra cost of employing external tax advisers, non-labour costs like Quicken and MYOB software, and hardware. We are looking at both transitional and recurrent costs, and we are trying to subtract the benefits which have been associated with tax reform, like tax deferral benefits and the fact that there are cash flow benefits associated with the GST being held for the government for a term.

I will move to the end of my presentation: cost estimates. The Treasury predicted \$2.2 billion as the cost of introducing tax reform. There is an independent Curtin University study which has a larger estimate of \$5,000 per small business. We have reached the preliminary figures that we discussed, coming out at something like \$3,400 net per small business, which adds up to considerably more than the Treasury estimated.

Senator CONROY—Is that about double or more than double?

Dr Glover—Yes, that is about double. Our initial findings show widespread ignorance about this vehicle for the tax compliance dividend, the STS. Small business partnerships and trusts do not benefit, for the reasons we have suggested. Few small farms, in any event, are capital intensive. The \$1 million turnover figure is inadequate, and there are other matters which we have touched on. I will pass to my colleague.

Dr Tran-Nam—Going to the start-up compliance costs of tax reform, we looked at the time spent on tax affairs. We found that the transitional period incurred significant time costs for small business owners. At the owner-director or partner level, on average, 23 hours were spent on preparing for tax reform and, at the lower level, at the clerk level, an average of 25 hours were spent. The value of time loss in total we estimate to be about \$1,800 for each small business. As to direct costs incurred in training staff to get used to the tax reform, most participants in the project sought external advice and had to pay for that. Also, most participants either purchased or upgraded their computers in preparation of tax reform. Most small business owners, especially service oriented small business, found it difficult to pass on the compliance costs to customers. As a result, they had to absorb some of the direct cost of the tax compliance.

We also looked at the offsetting benefits. There was some evidence that managerial benefits were enjoyed by small business owners because of the need to keep records more rigorously. Similarly, the need to keep records at the quarterly level also improved some of the business management decision making. Some businesses reported cash flow benefits which arose because they were able to collect the tax and keep it for the period before remitting it to the tax office. In that sense, they enjoyed some cash flow benefits. Some small businesses used the tax office's field officers, but relatively limitedly. Overall, it is difficult to place a dollar value on the offsetting benefits of tax reform.

Turning to problems with tax reform, as suggested in our submission most business owners found that they had to spend excessive time to comply with the new tax laws. There were some problems with the tax office as well because they felt that the tax office was not well prepared for the tax reform. There was a problem of information overload—too much information—over a relatively short period. They also mentioned the lack of support and the problems arising out of the business activity statement. Obviously, as a result of the tax reform, there have been increases in accounting costs. The other problems that we have discovered relate to the use of tax software. The GST exemption complicates compliance with the GST tax reform as well.

Some participants mentioned threats from the ACCC in terms of their pricing policy. Farmers, in particular, found it difficult to predict their pay-as-you-go instalment correctly. There were also flow-on effects of the GST and, generally speaking, there were considerable stresses over the transitional period of tax reform. We collect suggestions from participants to see how the tax law can be improved or how the compliance costs can be lightened for the taxpayers. The first

suggestion is a small compensation for small businesses. In collecting the GST, a small percentage of the remittance of the tax collected, for example, could be paid to business taxpayers as a reward for their tax collection effort.

Business taxpayers like to have a more flexible BAS deadline rather than the quarterly requirement of the tax office. They feel that tax reform has catered mostly for mixed business and there should be further consultation with small business bodies. Participants also suggested there should be tax deduction for business meals and other simplification. In conclusion, we found that, despite the increasing compliance costs, many business owners are very supportive of tax reform in principle. They feel that tax reform could help to overcome a variety of problems including the question of cash economy and so on. There were some managerial benefits for less professional small businesses. Certainly, we felt that tax reform was very much geared towards mixed business and, finally, it is not yet a simplified tax system.

Senator CONROY—I am a little confused after reading your submission. I know you have not had a chance to go through it properly, as you wanted to, because we do not have an overhead projector for you—so if you could bear with me. You are doing this in stages: I got the impression from what you said that your written submission is the first stage of the assessment that you are undertaking. Is that right?

Dr Glover—Not quite. When you say we are doing it in stages, we are looking, first of all, at transitional tax compliance costs. Then we are looking at recurrent tax compliance costs, after which we will tabulate our findings.

Senator CONROY—Sure.

Dr Tran-Nam—Expanding on what Dr Glover said, this is initial in the sense that our project is concerned not only with the GST based tax reform but also with the other Ralph reforms. This mostly covers the GST.

Senator CONROY—This seems to be virtually a study about the implementation costs of the GST: the transitional costs as opposed to the recurrent costs?

Dr Tran-Nam—Yes, because many of the Ralph reforms have not yet been felt by the business sector. Also, tax reform can be thought of like an investment of tax policy because the initial cost may generate some future benefits. So in order to evaluate that, we need to know about the initial cost as well as the future benefits. Therefore, in that sense, this is part of the bigger picture.

Senator CONROY—It says the paper is the first publication pursuant to an ongoing project funded by a three-year Australian Research Council grant, so it is a three-year project you are doing. You start talking about the Ralph impact, and that is where I am a bit confused because there is no analysis of the Ralph impact. Obviously you cannot do it at the moment because, as you say, it has not flowed through into the economy.

Dr Glover—I think that is right.

Senator CONROY—I am a bit confused. You describe a number of measures that you are trying to test by saying the income tax system was further broadened: an ABN for enterprises; a simplified tax system for small business; and a pay-as-you-go tax collection for businesses and individuals was introduced in addition to proposals for a wide-ranging review of the business tax system. What do you mean when you say a ‘simplified tax system for small business’? I am trying to understand what those measures are, because I have never heard them described like that before. ‘STS’ does not mean a thing to me. I have sat on every parliamentary committee inquiring into every piece of tax legislation in the last six years—and I think Senator Murray has sat on the same committees with me all the way. I have no idea what you are talking about. I am trying to get an understanding in my head which measures you are referring to when you say ‘STS’.

Dr Glover—They are contained in the Income Tax Assessment Act 1997. Essentially, it is a package, which is a package of reforms you can either opt into or opt out of. If you opt into it, you get your taxation computed on the cash basis as opposed to the accrual basis.

Senator CONROY—Okay.

Dr Glover—You get a simplified system for accounting for your trading stock, and you get a simplified system for depreciation—and there are certain other things.

Senator CONROY—I am with you now as to what the measures are referring to.

Dr Glover—I can talk a bit about the appropriateness of those things, and whether they work or not.

Senator CONROY—I may take you up on that offer in a tick, because, in trying to make an assessment of whether a small business has been hit harder than it should have been or than is appropriate, you are trying to calculate what is referred to by, I think, Ralph as a compliance dividend benefit. Have you have been able to do an assessment of the compliance dividend? At this stage you have only done the GST costs; you have not done the other part. In my head I am looking for $x-y=z$, and at the moment I can only find x . I cannot find the $-y$ or the z yet.

Dr Glover—If you go out into the field and speak to small businesses, all they want to talk about is the GST. That is the only thing which is on their agenda. When you say to them, ‘But there are all these other subsidiary things,’ they say, ‘They really don’t make any difference.’ It is the GST and the BAS. Would you agree with that, Binh?

Dr Tran-Nam—I think it is right. Some of the Ralph reforms, even though they may reduce the recurrence of the regular, ongoing compliance costs, may incur some initial costs as well. So we have to measure both the initial costs and the return benefits of the Ralph reforms. John has just said that most business taxpayers are ignorant about STS. As a result, we are not yet in a position to collect data, to analyse or to come up with any conclusive answers.

Senator CONROY—At this stage, it seems from what you are saying that people do not know about the STS, so they have not benefited from it. I think you make the comment that there has been a failure of the government to explain that it is available, never mind that it is available and is of possible benefit.

Dr Glover—There is a further factor. A lot of small businesses do not prepare their own tax. They have a tax agent or an accountant. He, rather than them, is the bloke who would be looking at the STS. So, when you say they have not heard about it, that is not really surprising, because they do not do their own tax. We have also spoken to accountants and made some investigations as to the appropriateness of the STS measures.

Senator CONROY—Who are the beneficiaries of STS? If accountants for small businesses have not adopted it, presumably they have not adopted it because—

Dr Glover—The fact is that there are no beneficiaries, because the system is of no practical use to small business. It offers them a cash basis for taxation, but they are all on the cash basis already. It offers them a simplified system for computing their trading stock, but that is a very small advantage. It offers them depreciation, but a lot of small businesses do not have a lot of equipment and assets to depreciate. Also, the threshold of \$1 million is becoming more ridiculous every year. The most humble 7-Eleven store will have a turnover of \$4 million or \$5 million. Just about all the petrol stations in the state of Victoria have turnovers of over \$1 million. We have spoken to farmers in WA. Even to introduce a crop—when you have got 1.5 employees or something—costs \$1 million a season. So \$1 million is a figure which is way out. Then, as I have indicated, the thing itself is not of any practical use.

Senator CONROY—So you can almost say that, in my $x-y=z$, the $x-y$ benefits of this system are zero for small business?

Dr Glover—Yes. The benefits are almost nil.

Senator CONROY—Then you talk about a third factor, which is the Ralph reforms. Are you saying that you have to put all three of these together to be able to tell whether or not small businesses specifically are better off?

Dr Glover—It is a subtlety. In one sense, company tax has gone down from 33 to 30 per cent. That is a three per cent difference, and those small businesses that are organised as companies are, of course, going to benefit from that. But, then again, our investigations have shown that the number of small businesses organised as companies would be in the vicinity of—how many, proportionally, Binh?

Dr Tran-Nam—I do not have a precise figure, but it is a small fraction.

Dr Glover—It is in the realms of 10 to 15 per cent. Small businesses are basically partnerships.

Senator BARNETT—Can I clarify that? Are you saying that 10 to 15 per cent of all small businesses are incorporated?

Dr Glover—Speaking very roughly, yes.

Senator BARNETT—And your definition of small business is the same as everyone else's?

Dr Glover—It is the \$1 million one.

Senator MURRAY—Which is why so few of them fall under federal unfair dismissal laws, and why all that stuff about unfair dismissal is irrelevant.

Senator CONROY—You are just in that sort of mood today, aren't you? He is feisty today, isn't he? I think he is punch-drunk, frankly.

Senator BARNETT—He wants to hit back.

Senator CONROY—Sorry. Don't mind us.

Senator MURRAY—That is all right.

Senator CONROY—Is it your gut feeling that small business will not be a particular beneficiary of the Ralph reforms either, because they are targeted more at companies than at the other areas?

Dr Glover—The Ralph report clearly said that this will not benefit small business, that small business will be worse off as a consequence of what they recommend. They said, additional to the fact that small business has been hit very substantially by the GST, they need a compliance dividend; the adequacy of that is the question.

Senator CONROY—Where is the compliance dividend? You are doing some serious empirical research into it; I cannot find it either.

Dr Glover—We suspect it may be a furphy.

Dr Tran-Nam—I think the Ralph report is saying that, for example, under the new printing stock rules, business owners may spend less time worrying about keeping records of stock. That is a help. The reduction in time spent on non-productive business—

Senator CONROY—That is if they adopted the STS.

Dr Tran-Nam—Yes.

Senator CONROY—Is there a way to calculate via the tax office how many small businesses have taken this up?

Dr Glover—I have not seen figures on that; have you seen any, Binh?

Dr Tran-Nam—We have not seen any official statistics come out.

Senator CONROY—In your experience your gut feeling is that, really, it is relatively meaningless and, therefore, the vast majority would not?

Dr Glover—Yes.

Senator CONROY—You say in your submission:

The report provided that tax changes unfavourable to small businesses would be redressed and counterbalanced by a number of measures. Here the Review employed the use of a 'compliance dividend' ...

Which review and report are you referring to?

Dr Glover—The Ralph review.

Senator CONROY—You are looking for the counterbalancing compliance dividend implied by the Ralph review and you are struggling to find it; is that right?

Dr Glover—Yes. We have been to many parts of Australia. We have been throughout Victoria and New South Wales, including the west of New South Wales—

Senator CONROY—On the hunt for the compliance dividend.

Dr Glover—Yes. It has been quite a search and a lot of driving.

Dr Tran-Nam—But it is still early days for STS just yet.

Dr Glover—Yes, it is.

Senator CONROY—To be fair, five years is a reasonable time for people to take up an option that will be of benefit to them. I know you are saying that empirical work does need a bit longer but you would think that, if it were a real benefit, they would be jumping in and snapping it up. So we have the Ralph counterbalancing compliance dividends that you cannot find.

Dr Glover—We have made some industry specific observations in our travels that may be of interest. As I said, we have spoken to a lot of farmers in different parts of Australia, and we will give our view on those in a moment. We have also spoken to small businesses, mainly in various cities. We spoke to a person who ran a large restaurant and catering business in an outer Brisbane suburb. He said that his business has gone off dramatically since the introduction of the GST. He produced what are almost disastrous statistics to show how bad the effect has been. He said that the business has gone off by something like 20 per cent to 30 per cent.

Senator CONROY—I am interested in a lot of the categories that you talk about—for instance, excessive time compliance costs and the emotional stress component, as opposed to just filling out the documents. I do not want to cause you guys any emotional stress but are you aware that the tax office announced after the last budget an extra 2,000 compliance officers, of which about 300 to 500 are specifically targeted to conduct audits on small business?

Dr Glover—Yes.

Senator CONROY—We have had a lot of evidence in the last couple of days, and it is fair to say that the tax office have been complimented over the GST implementation by a lot of people involved in the small business area, because of their friendliness and their willingness to come out at 8 o'clock at night to talk, advise and those sorts of things.

The election is out of the way and now the tax office is going to actually start applying the tax laws. Your study was done in the period I would describe as pre-election, where the tax office was here to help. Now we are going to get 2,000 extra tax officers. I think they have specified that, for every dollar they are spending on these compliance officers—because it is quite a significant amount of Commonwealth dollars—they intend to recoup \$3 or \$4. In other words, they are going to be conducting a lot of audits and pulling in a lot of money. These are the government's own estimates.

Dr Glover—We have spoken to people and one of the things you hear them say is that, when they do an audit on your business and ask, 'Do you have receipts for all of this?' you say, 'Yes, I have got receipts for that,' and you come out with a huge box of receipts. They say, 'Give us the receipt for this transaction on 29 May 2001,' and you say, 'Just a moment,' and you take about 15 minutes to find the receipt. They say that after about three receipts the auditors lose interest because they are not making money at that point.

Senator CONROY—I completely accept the point you are making, but the number of audits and the number of dollars that are going to be pulled in out from this sector, according to tax office and Treasury figures, are going to substantially increase. So in terms of the impact that has been described by the people you have surveyed, it would be interesting to see if there is a change in the perception—certainly I suspect that their emotional stress is going to go up—due to the actual hours in preparation because of the tax office coming and that sort of stuff.

Dr Glover—Can I just say a word about their perception. The favourable impression of the tax office came from the conduct of field officers. They are thought to be great blokes.

Senator CONROY—That is the evidence we have received.

Dr Glover—Yes, but that is not all. The tax office has been roundly condemned for all of its literature. A great deal of literature has been produced and it is said to be confusing and contradictory.

Senator CONROY—Those Joe Cocker ads were great, don't you think—if you are a Joe Cocker fan.

Dr Glover—The tax office has also been roundly condemned for the performance of its telephone answering service, which a lot of small town accountants used.

Senator CONROY—Yes, we have heard that dichotomy as well. The field officers have been great, but actually phoning with a question is not.

Dr Glover—My point is that it is only the field officers—everything else is condemned.

Senator CONROY—My point is that field officers are actually taking off the 'we are from the tax office—we are here to help you' hat and putting on the 'we are here to audit you' cap. I suspect that there is going to be a bit of a change in sentiment and attitude. If you look at what happened in the Canadian situation, once they actually started knocking on doors and saying, 'Could you just explain to us how you took \$2 million last year, but this year you have taken \$6 million?' then there was a bit of a change in perception.

Dr Glover—Or vice versa.

Senator CONROY—No, most of the time it went the other way. I just suspect that your study was taken during the benign period—pre-election, if you want to be a cynic. Post-election, they are going to seriously enforce the tax laws.

Dr Glover—Are you referring to our study? We have been compiling this in the very recent past.

Senator CONROY—This is in the last six months?

Dr Glover—A good deal of this empirical work has been done in the last six to nine months.

Senator CONROY—Unfortunately, the tax office only announced this in the budget in May.

Dr Glover—Our project runs for three years, so presumably we will pick that up.

Senator CONROY—I was not wanting you to redo the project but was referring to the perceptions and commentary that is in here.

Dr Glover—We will look out for it.

Senator CONROY—The tax office field officers are now audit officers, not field officers.

CHAIR—I have a couple of quick questions. I was interested in the comments on page 16 of your submission. It seems that we may have discovered how small business can be the driver of employment growth in the economy when you look at those comments from accountants and tax agents at the top of that page. The specific question I want to put to you is this: in these interviews that you have been doing with small business as part of the survey, what has been their response in terms of the perception of the cash economy? When we were in Western Australia last week we talked to a lot of small business people and their perception is that the cash economy is expanding. A lot of businesses are actually moving into dealing in cash because of the compliance burdens that are upon them. In particular, I note that comment at the bottom from the retail proprietor who is now spending all their time in the back room. That was a pretty common theme that came out from the businesses over there.

One of the disturbing things about it was that a couple of them said to us at the roundtable discussions that businesses are now being forced to make a choice about operating honestly and dealing with all of the compliance—all the burdens that are on them do that—or operating dishonestly. More and more of them were taking the second choice, so this dishonesty factor is coming into the equation. To what extent were those issues raised in the interviews you did around the country for your survey?

Dr Tran-Nam—Our study did not set out specifically to answer the type of question you are raising. It did not concern the cash economy as such. During our interviews with participants we heard remarks about the cash economy. I may be at fault in generalising from a very small number of observations, but the impression we got is that the combination of the GST and the

ABN—Australian business number—has successfully reduced the cash economy at the business to business level. However, the business to consumer level is a different story. My indirect understanding—not related to our core study—is that tax reform has not been very successful in combating the kinds of tax evading activities there.

If I may be allowed to say beyond that, the cash economy is not so much a question of tax policy as a question of tax culture. No matter what kind of tax law or tax policy the government can think of, there could be some tax evasion in the form of the cash economy. It is a question of tax culture, and in order to combat that we need to develop a more cooperative tax culture. In fairness to the tax office, I think that in the past five to 10 years or so they have had more cooperative tax administration techniques, moving away from auditing towards a more cooperative and educational approach to tax reform.

CHAIR—But if the compliance burdens and their capacity to meet those are onerous for small businesses—it is not only the cost of accountants and so forth but also the time factor in filling out forms and the rest of the bits and pieces they have to do—we are almost creating the environment for that to flourish, rather than trying to reduce the environment within which it would flourish.

Dr Tran-Nam—That is conceivable. Tax complexity sometimes drives businesses to the cash economy because it is too complex to stay within the laws. That is conceivable, but we have no way of knowing to what extent. In our study we did not set out to answer this kind of question.

Senator MURRAY—Before I ask some questions I want to thank you for the work you have done. Your submissions, as an institute, to the new tax system inquiries were very helpful, as Senator Conroy will recall. The other thing I want to say is that you can give my regards to Michael Walpole, who like me is of Zimbabwean origin.

Dr Tran-Nam—I will do that.

Senator CONROY—We have tortured him regularly.

Senator MURRAY—He is an old friend of mine. The first issue is that of compensation. Governments can introduce systems which they believe are in the public interest and are necessary for the country's health, but you then have to consider the issues of compensation. As you know, the Australian Constitution takes that up in the 'just compensation' clause. There are discussions right now, for farmers, about water rights and issues of salinity and land degradation and what compensation they should have for being addressed like that.

My impression is that many small business people who supported the introduction of the new tax system nevertheless felt aggrieved about the lack of compensation. If you do somewhat crude sums on your conclusions as to the net costs—gross less benefit—you arrive at a figure of something like \$3 billion plus that would have been needed to compensate small business. As you know, they were offered \$200 million, which is about a six per cent compensation response. Throughout this inquiry, we have heard submissions from small business people who say, 'When there's the introduction of almost any government legislation'—be it superannuation requirements, privacy legislation, a new financial reform act for some sectors, a new customs act for the customs industry—'there are costs of upgrading software or retraining,' and on the

surface it might seem unaffordable. Do you have examples of international studies which indicate how this compensation issue is dealt with in other OECD countries?

Dr Glover—Are you addressing the notion of fairness and equality of sacrifice as between sectors in the economy?

Senator MURRAY—Yes. We—and by ‘we’ I mean the parliament—want small business to assume a burden in the public interest. They have come back and said, ‘We want to be compensated for it,’ and the government has said, ‘Yes, we agree with you, but we’re going to compensate you, on your figures, the effect of six per cent of the cost.’ It is not just the new tax system which generates those real costs; it is many other things.

Dr Glover—Before I pass to my colleague, I mention that it is suggested commonly by small business that there should be some sort of fairly entrepreneurial benefit extended to them because they are acting, effectively, as tax collectors for the government and they ought to be paid for so doing. So if they collect, say, \$100,000, they ought to get half a per cent or some figure as their collection expense. That is suggested by some to be appropriate.

Senator MURRAY—My question to you, as an academic institute with considerable information resources, is: what are the international precedents? How do other governments in the OECD deal with these issues?

Dr Tran-Nam—I would like to answer that in two parts. First, to the best of my knowledge, no country in the world has any formal program to compensate business taxpayers for the compliance cost of tax reforms. In fact, if we look at the European countries, tax compliance costs are very high in English-speaking countries like the UK, Australia, New Zealand and, perhaps to a lesser extent, North America, but European countries do not regard compliance costs as a very serious business at all. If we speak to the tax academics of middle Europe, they think that individuals should not be considered—

Senator MURRAY—When you say ‘they’, do you mean governments or small business?

Dr Tran-Nam—The government. There are no formal schemes anywhere that we are aware of. Secondly, our study focuses on the simplicity aspect of the tax system—looking at compliance costs and all the aspects of complying with tax law. The formal tax changes have a variety of impacts on the business, including efficiency impacts and so on. When we start talking about compensation, I think we need the overall picture. It may cost them a little bit more to comply with the tax law, but it helps to increase their business—they can sell more or whatever. The previous condition becomes better—the growth of the economy. All these sorts of things have to be taken into account in order to arrive at what we call ‘compensation’. That is from an economic perspective. We need a bigger picture, rather than just the compliance cost alone.

Senator MURRAY—When looking at the issue of the new tax system, you correctly said—and we know—that it was unusually well integrated into a number of checks and balances from a revenue integrity point of view; that is, introducing the ABN system, the PAYG system and the GST system, all simultaneously. I might say, there are other areas where government, through the tax office, can cross-check on gross take and other things—through, for instance,

the superannuation requirements, FBT returns and so on. There are quite a number of means by which you can establish that a business is being honest.

There were two intentions—one was to create a consumption tax regime as an end tax system, on the VAT/GST model, and the other was to ensure that those small businesses that were avoiding the tax system and not paying their fair share were brought into it. My assumption is that both of those have worked, but the chair has rightly indicated that we are getting not just anecdotal evidence but probably something a little harder that indicates that many small businesses are stepping outside the system because the issues of compliance are such that they would rather not wear it. The issues of compliance include many aspects other than the new tax system, such as awards, industrial relations regulations, even, in some cases, occupational health and environmental regulations, superannuation requirements and costs and that sort of thing. Do you think that the academic and empirical studies that people such as yourselves have done will enable governments to find better ways of achieving the same public interest outcomes—people paying their superannuation and so on—whilst minimising the compliance effect?

Dr Glover—That is the purpose of our project. What we are trying to do, in a revenue neutral way which does not involve any substantial alteration of the tax laws, is finetune the system to make it achieve better the purposes that it was intended to achieve.

Senator MURRAY—If that is the purpose of your studies—and I do not think that your recommendations go into detail on how you would finetune it—the question is: do Treasury and the bureaucracy beat a path to your door and ask for your advice in this area?

Dr Glover—They have not done so yet, but we are certainly going to bring it to their attention. I might say that these things are only going to happen at the conclusion of three years study. At this stage we have just identified problem areas, like the efficacy of the STS and whether, if the STS is of any value, the threshold ought to be dramatically increased. We are talking about things like when the appropriate time is for the lodging of BAS statements. At the bottom you might say that it is all a very small thing—for all of this industry we are recommending only very small changes—but then again, that is the nature of the beast. We are not people who have it within our power to make sociopolitical suggestions as to the changing of the system; we are only here to improve what we have got. Improving what we have got is a very small and painstaking thing. But we are looking for exactly what you have suggested.

Senator MURRAY—My understanding, which is based on a very long interaction—as Senator Conroy has had—with these great policy changes, is that you are the only independently resourced, empirically based body in Australia that has specialist expertise in this field. Is that right?

Dr Glover—That is right.

Dr Tran-Nam—I think there are a couple of people who are in that category as well—for example, Jeff Pope, who is an academic at the University of Western Australia. He has been doing this kind of thing.

Senator MURRAY—Yes, I know of him, but he does not operate from an equivalent resource base to your unit.

Dr Tran-Nam—No.

Senator MURRAY—It would seem to me that, if parliament as a whole—all parties—are committed to revenue raising and, in theory at least, would like to pursue the areas of equity, simplicity and efficiency as tax principles, then your early input, rather than waiting for three years, would be useful to the government of the day.

Dr Glover—We certainly hope so.

Senator MURRAY—Does the tax office talk to you?

Dr Glover—We stay well clear of the tax office, because we do not want to compromise our independence in any way.

Senator MURRAY—But the tax office is presently responsible—at least until that responsibility shifts to Treasury—for the design of adjusting legislation, for the design of BAS forms, for instance, and for the implementation of PAYG. You would surely have insights you could provide them with at this early stage?

Dr Glover—Sure, but we do not want to nail them to the mast yet, because we have not completed our study. We have just indicated some preliminary findings. That is as much as we have covered.

Senator MURRAY—When will your study be concluded and when will your findings be published? Will it be before the next federal election?

Dr Tran-Nam—We hope to publish our findings progressively as we obtain more and more data. We hope to publish them in what we call referee journals, which are very important things to us academics. The project could be concluded at the end of 2003. By that time, we hope to publish a major report that includes all relevant aspects of the whole study. I understand that the tax office have their own GST risk management unit, and they are carrying on their own tax study. They are trying to develop a profile of people who have complied with GST law, people who have overpaid or underpaid GST and so on. So far they have not yet approached us for advice, but I think it is conceivable that they will in the future, when our study is brought to their attention. I certainly hope that they will be seeking input from us as independent academics.

Dr Glover—We are jealously guarding our independence.

Senator MURRAY—That is all I have. Thank you. Your submission is very useful for those of us involved in this kind of policy field.

Senator BARNETT—We are a bit tied for time, so unfortunately I will have to restrict my questions. Thank you for your submission. We will be having the ATO as a witness, in Canberra

I think. They will be able to respond to any questions that Senator Conroy or any other members of the committee have in regard to their being leaned on or what have you in terms of political interference, and no doubt they will be defending their position and clearly saying what their position is in that regard. No doubt any allegations about that will be cleared up at that time. The conclusions on page 21 state:

... the STS small business threshold of \$1 million is inadequate.

Do you have a recommended threshold—something that is appropriate?

Dr Glover—\$5 million.

Dr Tran-Nam—Given the capital intensive nature of the farming sector, I think \$5 million is the suggested figure.

Dr Glover—It is a pretty substantial change, going from \$1 million to \$5 million.

Senator BARNETT—It is. What are we talking about there? Is that in turnover?

Dr Glover—It is basically turnover, yes.

Dr Tran-Nam—Just the inclusive turnover.

Senator BARNETT—What makes you think that \$5 million is the appropriate level? How do you come to that figure?

Dr Glover—Just from our experience in the field. We have spoken to farmers about how much it costs to sow a large crop. We have found out how much it costs to run a convenience store. A convenience store might have one proprietor, five part-time employees and a turnover of, say, \$4 million.

Senator BARNETT—The reforms have least advantage and most impact for sole proprietors and unincorporated partners. Is there any obvious reason for that?

Dr Glover—The obvious reason is that they do not get the advantage of the reduction in the corporate tax rate, from 33 down to 30 per cent. It does not mean anything to them.

Senator BARNETT—Is that the main reason?

Dr Glover—Yes.

Senator BARNETT—Have you factored the income tax level changes into your thinking?

Dr Glover—I think, after inflation and the passage of a couple of years, it does not make a great deal of difference to a lot of small businesses.

Senator BARNETT—Because of bracket creep, inflation and so forth.

Dr Glover—It was really an illusory advantage at the time, anyway.

Senator BARNETT—This whole report, though, is on the compliance costs, and it has not taken into account the tax reductions in corporate or income tax, has it?

Dr Glover—That is right. It does not look at that.

Senator BARNETT—Or at the removal of the other taxes, the state taxes?

Dr Glover—No. When you balance the scorecard at the end of the day, you have to factor in all these things, but at the moment this is just compliance cost specific.

Senator BARNETT—Thanks very much for your time.

[11.25 a.m.]

SPIERINGS, Dr John, Research Strategist, Dusseldorp Skills Forum

CHAIR—Welcome. The committee has before it your submission, No. 74. Are there any changes you wish to make to the submission?

Dr Spierings—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.

Dr Spierings—I apologise firstly for the absence of Eric Sidoti. He is trapped at Sydney airport at the moment, so he will be a late starter in Melbourne. I will give a bit of background about the Dusseldorp Skills Forum. Some of you may be familiar with the organisation, but others may not. We are a small organisation, established in 1988 on the retirement of Dick Dusseldorp from the Lend Lease Corporation. A small parcel of shares in the Lend Lease Corporation was divested by the institutional and staff shareholders, and that developed a corpus of money that emerged as the Dusseldorp Skills Forum. We are independent of the Lend Lease Corporation; we have no structural or financial connection with the origin of that corpus of money. Our mission is broadly to look at employment, education and training for young Australians—not exclusively for young Australians, but significantly for young Australians. One of our key areas has been looking at the wide range of training opportunities and learning opportunities that are available, particularly beyond the classroom, so vocational education and training has been a particular area of interest. We work as a practice and research organisation. We are not grant givers but we work in partnership with others.

The key issue that we have raised before you relates to the recent report, published by us and authored by a team at ACIRRT at the University of Sydney, looking at training and employer contributions to training in Australia. The report is fairly broad ranging. It looks at a range of data sources, reviews developments during the 1990s and basically draws the conclusions that employer contributions to training are in decline as far as the available research data tells us; that, while the level of qualifications in the work force is rising, there is a significant mismatch in the way in which those qualifications are recognised and rewarded in businesses; and, more generally, that Australia, compared to other OECD countries, has been relatively slow in the development of high-skilled work.

In relation to your brief and the small business issues that you are looking at, one area that is raised in the report is the performance of small employers compared with larger employers. They are obviously at a significant disadvantage in terms of reduced human resource capacity and so on, but the trend data is pretty clear that during the 1990s small business employers found it difficult to make the same contribution as larger employers to the training effort. There is a suggestion, if you look at the occupational and industry areas where strong emphasis has been placed on the training effort and the national training reform agenda, that small business

again faces particular difficulties. We think these issues are important to highlight before the committee, given that this research has just recently been published. The report makes a comparison between the training effort under the training guarantee levy during the 1990s and more recently and draws the general conclusion, based on some international comparisons, that we need to rethink the policy regime about employer contributions to training.

Senator BARNETT—Can we focus on the training guarantee levy? That was certainly seen by some as being deficient and a little bit irksome for small business, but obviously the principle or the concept was supported in some quarters. Could you flesh out for us how, if something similar came in, you would see that being structured and how we could avoid the impost on small business in terms of costs and complications?

Dr Spierings—The experience with the training guarantee levy is interesting because it was actually withdrawn prior to the final evaluation of the levy being completed and published. A key area of the report goes back over that evaluation, testing the veracity of the data and reviewing the experience that the evaluation highlighted. You are right, Senator—one of the key things that the evaluation points to is the burden placed on small business by a mandatory regime.

There are a number of ways in which we can improve on a levy arrangement. In the report we highlight the French system. We need to make any sort of levy arrangement more employer-led. If you look at European experience—particularly the German experience—employers actually take a key role in the way in which training levies are developed and used on the ground. So there is support, professional development and assistance for the use of training moneys that are available within the system, and that is done by employers helping each other through their employer associations.

The report talks about skill ecosystems as a potential way of ensuring that small business can have access to a better range of training opportunities and can invest more. Those ecosystems are built around the idea that you have clusters of skills in particular industries that need to be strengthened, reinforced and developed. Currently we have pretty much a ‘one size fits all’ training regime that does not actually build on the strengths that particular employers have, share that learning and knowledge and build real and competitive strengths.

Senator BARNETT—Have you done any needs analysis for small business in terms of the type of training that would perhaps benefit small business or microbusiness?

Dr Spierings—We have not done that directly, but a report by ACIRRT was done for the Board of Vocational Education and Training in New South Wales that did look at those questions. I can refer the committee officers to that research.

Senator BARNETT—From your understanding of that report and just generally, are there particular aspects of small business management or of training that would be beneficial?

Dr Spierings—I think that there is a cost issue. The infrastructure that is required in order to participate in the training effort needs to be shared. Particular infrastructure is required, as well as knowledge, skills, a supervisory role and so on. In a small business environment, often those skills are not there or there is a cost. That cost can be shared across a range of employers, and

group training is one example of how that happens. So there are a number of reforms that could take place on that side.

Senator BARNETT—With home based businesses and very small businesses, is getting up to speed with technology and the Internet and so forth an area that we need to be focusing on?

Dr Spierings—We have not focused on that area in the report. I guess that we are looking less at the self-employed and more at those who are working within a corporate and business framework. One of the key issues that we highlight in the report is what is happening for workers who are on non-standard employment conditions—that is, those who do not have access to leave entitlements and are considered casual and so on.

The most recent data that is available from the CCH-AGSM survey of business, which is a very large and well-established survey, shows that workers in those employment categories, who tend to be more marginalised and tend to be more in and out of the work force, have very little exposure to training, which is fragmented and often non-existent, particularly in small business. There are real difficulties in skilling up and training up workers who are in those employment conditions.

Senator BARNETT—That is certainly an issue that we are looking at as a committee. We heard from a witness this morning about the barriers to employment, and that these had been increasing over the past four years. Do you have any data or research on that and the nature of those barriers?

Dr Spierings—Could you give me some examples?

Senator BARNETT—They talked about industrial relations, occupational health and safety, workers compensation and taxation issues.

Dr Spierings—I am not able to comment on the industrial relations framework.

CHAIR—There is a bit of a dilemma here in some respects. A lot of the evidence that we have had points to the fact that one of the impediments to small business growth is the lack of skilled labour to meet their demands; on the other hand, there is the dilemma that small business are notoriously bad investors in training skilled employees. Other than the approach that was developed through the training levy and the concept of forcing everyone to make a contribution to training, what other mechanisms are you aware of that could be put in place that would encourage small businesses to make a contribution to that training agenda? They expect others to do the training for them. They expect this pool of skilled labour to be there, but someone has to train them. They have an expectation that someone else will do it for them. In the past we did it through the utilities, but most of the public utilities are gone, and their capacity to train has also gone. I think a recent report for the Victorian Manufacturing Council, by at least one of the authors of your report, demonstrated that many businesses these days are so lean and mean—there is no fat in them—that you can direct into the training infrastructure. There is also a dilemma in terms of overall training. I suppose the question is: what mechanisms are available to try to spread the load and to lift the overall training profile?

Dr Spierings—It is an important question. I think it is a combination of approaches. It is not all carrot, and it is not all stick. At the moment, ACIRRT are saying that there are a lot of carrots, but there are not that many sticks. A broader analysis would say that we are not replenishing the pool of skill sufficiently—that we are living off a pool of skill that has been developed historically and is being renewed by the efforts of individuals rather than through a combined approach across business, government and individuals such that the burden is falling on individuals. I do think that we need to have a set of benchmarks for investment.

CHAIR—There is a company operating out of Ingleburn, just south-west of Sydney, that demonstrates that.

Dr Spierings—A centre of excellence.

CHAIR—In conjunction with a number of other toolmaking companies, it is setting up a company purely for the purpose of training toolmakers as there is a shortage of toolmakers in our structure at the moment. That would seem to place an uneven burden on those two or three companies because, at the end of the day, others will probably benefit from at least some of that training. If that is a model that works, there is also the question of how you spread the burden more widely rather than just on those individual companies.

Dr Spierings—That is right. In the north of Melbourne, for example, in the stainless steel industry and furniture making, there are similar combined efforts of employers developing skill centres in conjunction with training organisations, with TAFE, and on their own behalf. They have had some support through the local area consultative committee but generally it has been employer led. We need to share those good practices. But I think that will only happen, in our current policy environment, when businesses reach the point where they are either considering offshore development and investment or considering whether to stay here and what conditions they need to be able to stay in Australia to continue their level of production, manufacture or service delivery. So I think it is all about working closely with business in particular sectors and settings where you have a critical mass of employers who have a shared interest and mutual purpose in the development of a stronger pool of skills from which to draw. We do not do that research systematically; we do not undertake that nationally; and we do not undertake that regionally. The recent Victorian effort in relation to manufacturing was the first in a long time that that has occurred. You could apply that study to a range of other industries where the training effort needs to be improved. So I think the approach should be a combination of working with employers to realise the benefits that can come from that approach, along with a policy framework that articulates with business that this is not a cost but it is an investment. That means, if necessary, a mandated level of investment. I think those approaches will work based on what has happened in Europe and some parts of North America.

CHAIR—Yesterday, the West Melbourne ACC indicated that they are currently undertaking a study looking at the skills profile of the area in which they operate and the skills available across various age levels. It will be interesting to see what the outcomes of that are. There is a lot of anecdotal evidence that, for example, skilled tradespeople—and I know a few of them—over the age of 45 are having enormous problems getting back into the industry. On the other hand, we hear claims that there is a shortage of skilled tradespeople in the metal industry at the moment. People in that age bracket are being excluded from the labour market.

Dr Spierings—Yes.

CHAIR—That is not dissimilar to the experience in the UK, where I was recently. Their age profile is a bit higher than ours: it is the over 50s with exactly the same problem. The employers seem to think that employing someone over the age of 45 or 50 is not a good investment.

Dr Spierings—Part of our analysis is that employer organisations are very weak in terms of their on-the-ground involvement and their real connection with their members.

CHAIR—Some of them, like the AIG, have some good—

Dr Spierings—AIG; certainly. Their particular brief is manufacturing. But I think that more generally, outside that framework, in terms of the training effort we do not have a strong on-the-ground employer framework for the development of a lot of these issues, which contrasts with most of our OECD competitors.

CHAIR—Have you or your foundation looked at the issue of managerial skills at any stage? One of the things that has been coming through in this inquiry—and it is fairly self-evident—is the lack of managerial skills that most small businesses have: just the capacity to run their businesses. While they are very good at producing goods and services, they are not quite as good at managing and running the business that they are trying to run. Have you done any research work into that? Do you know of any research work at any point that has been done in that area?

Dr Spierings—I cannot point to research work that has been done; it is not an area that we have looked at particularly. We are involved with the development of self-employment for young people in western Melbourne through a project called Slingshot, which is run in conjunction with a range of organisations, including the Myer Foundation and the Melbourne City Mission. Again, the on-the-ground experience points to exactly what you are talking about: very bright young people with good ideas get to a certain point in establishing their business and realise that they need a lot of other abilities to do with tax, governance—

CHAIR—Cash flow, marketing—

Dr Spierings—employment and managing staff that they have very little developed capacity in. They are not reluctant to undertake training to overcome those difficulties or—more often—to try to buy in some capacity to address them. In citing that, I am emphasising the importance of that point—but we have not done a larger scale examination of that issue.

Senator MURRAY—The conclusion I have come to, after hearing all the things that have been said to us in this inquiry, is that what training is required for small business owner-operators—all the way from home based businesses to quite large enterprises—is fairly evident in a general sense. But it is quite evident, too—going on all the things that have been said to us—that those people require training to be targeted at and relevant to them. Otherwise, regardless of what we think, they will not take it up and participate. Even simple things matter, like training sessions being held at a time and place which is convenient. Yesterday, we heard that there were very good seminars on hiring and firing run by the department but that they were

held during the day and therefore could not be attended by lots of people. That would seem to be a basic issue.

The training guarantee levy suffered when the government made what I think was a correct judgment that it was too generalised to be of use, but the intent behind that was dead right. What kind of scheme do you think is the best to introduce? Do you think there should be market related schemes which have some kind of tax deductibility attached to them? As you know, tax deductibility only works if you make a profit, so if you are not showing or making profit then that is worthless to you. Do you think there should be stick requirements, such as that new entrants must go through certain training, or carrot requirements, such as vouchers?

Dr Spierings—As I was saying before, I think you need both the carrot and the stick. You are not going to make policy progress by relying on one series of instruments or on one set of interventions. A significant issue is the transferability of skills; much of the training that is offered is based around the needs of a firm at a particular point in time. The classic story—and this is by way of example and is anecdotal—is that you get trained to service Canon photocopiers but that you cannot service any other Canon equipment or any other photocopiers because your training has been so specific and so geared to a particular need and business focus. We need to look at the transferability of skills, at the broader range of capacities that training offers people and at the way in which this links to a broader agenda about lifelong learning and a thirst for learning. The issues you put about the availability, the timing and the framework within which training is offered are very important.

We have very few benchmarks in Australia for understanding the quality of the training process that is provided. The recent report by Kay Schofield for the Queensland government and the NCVER are serious on New Apprenticeships. I think we clearly have no national benchmarks about our training effort in terms of quality; we have very little data in terms of employer contributions since 1997. At a number of different levels we need to improve our understanding of what is actually happening, we need to work with business to improve outcomes, particularly around the quality issue, and we need to set in place a sharper and deeper framework for understanding what businesses are actually doing and what their needs are.

Senator MURRAY—In summary, what you just said is that a comprehensive needs analysis needs to be done of different industries, different sectors and different business segments, I suppose, in terms of size and type.

Dr Spierings—Yes. I think that the training guarantee levy faltered, as you were rightly indicating, partly because it was a one-size-fits-all approach. We have examples in the construction industry in Western Australia and in South Australia where there is an industry levy on the major employers, and that works successfully. We do not have that approach, for example, in the construction industry in Victoria and the two group schemes have failed in the last couple of years. It is horses for courses; it is actually understanding what is going to work in a particular sector to address particular skill shortages and skill gaps and enabling people to continue the training effort in their own time and at their own pace.

Senator MURRAY—To my mind, there are two areas. A small business person will recognise that they want to know the first area, which is often product or service related—it is practical and it is functional. Others will perceive that they need to know the other area, but they do

not accept that. That may be summarised perhaps as being in the broader area of management skills: understanding financial systems, business planning, forecasting and that sort of stuff. What do you do with that area? How do you get people to do what you know will assist them in productivity terms—something they are keen on themselves?

Dr Spierings—If we knew the answer to that, we would have a lot fewer business failures perhaps.

Senator MURRAY—I ask you because you probably know a bit more about it than I do.

Dr Spierings—I keep coming back to working with business for them to take a level of responsibility. They are competitors against each other but we are also competing internationally. Unless we actually use the range of skills and resources that we have together, we will not be able to cut the mustard in the international sphere. I think it is very much about working with those who are leading the way, sharing their good practice with others and demonstrating that there is a dividend as a result of that shared endeavour. That can be done, but we are not very good at harnessing that; we are not very good at translating success stories and developing a business case around some of these issues. We are very driven by short-term outcomes, by short-term gain, rather than looking at some of the longer running issues here. The way in which we undertake research, the way in which we share good practice—those sorts of things—clearly point to that as a deficiency.

Senator MURRAY—I do not actually believe what I am about to say to you but let me put this to get your reaction: what would you say to an approach which said, ‘Regard everybody who is already in small business as a lost cause, but every new entrant must have a minimal skills certificate in general business skills as opposed to the specific abilities they have’?

Dr Spierings—It is an interesting thought. In conjunction with the Victorian government, we have been developing what we call a licence for employment and participation, which is across a range of indicators and benchmarks. We will be working with young people and regional communities to ensure that young people who leave school early have an opportunity over a 12-month period to develop the skills that local employers want and need. A similar approach to business would be worth piloting so that there is a certain level of understanding of the success factors. We want to make sure that businesses have sufficient skill levels to achieve those success factors, and we want to develop that capacity amongst people who want to set up their own business or who want to undertake the challenge of investing with others in the development of the small business.

Senator MURRAY—Thinking loosely, the government could take a scientific approach. For instance, they could choose two country towns and regard them as controlled populations. In one, new entrants and business activity could happen as normal and, in the other, each new entrant could be given intensive business training. After a couple of years, they could measure whether one lot were more effective—operating better and achieving better—than another in an equivalent town.

Dr Spierings—You would have to take into account a whole range of other factors that might influence business outcomes.

Senator MURRAY—That is the difficulty. But that is what you mean when you talk about a pilot, isn't it?

Dr Spierings—Yes. I think it is worth considering. It is a basic question of capability. Given the significant skills that are involved in the development of a business, we would need to think more seriously about how we enable people to develop those skills. I think a small-scale research effort and pilot along the lines you have suggested would be worthwhile.

CHAIR—Thank you very much. That concludes the public hearings. The committee will resume with a roundtable discussion.

Committee adjourned at 11.57 a.m.