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SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Reference: Small business employment

THURSDAY, 12 SEPTEMBER 2002

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SENATE
EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Thursday, 12 September 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 Cherry 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 Wason.

Senators in attendance: Senators Barnett, George Campbell, Cherry and Conroy

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 3.31 p.m.

CZEPERKO, Mr Nick Michael, Managing Director, Crisp Technologies Pty Ltd

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WILLETT, Mr Paul Eaton, Owner and Managing Director, Bakenomics

CHAIR—As part of its inquiry into small business regulation and employment issues, the Senate Employment, Workplace Relations and Education References Committee is conducting a series of roundtable meetings with small business people. The committee is also holding more formal public hearings with input from those who have made submissions to the inquiry. The purpose of these roundtable discussions is to enable those small business people who do not wish to make a formal submission to bring their concerns and issues to the attention of the committee. We want to hear your views on matters which relate to the terms of reference of the inquiry, a copy of which has been made available to you.

Although these roundtable discussions are meant to be informal, we are bound to observe one important rule of the Senate in regard to privilege. This discussion is conducted under privilege and you are protected from legal proceedings in regard to what you may say. The recording of the discussion is not intended to inhibit informal discussion, and we can go in camera if you want to put something to the committee in confidence. I point out, however, that such evidence is often difficult to report on in an inquiry of this nature and in any event the Senate may order the release of such evidence. I would like your discussion to be guided by the framework provided by the terms of reference, but within each of the four reference points we can be as

free-ranging as we like. I welcome all the participants here today. Do you have any comments to make about the capacity in which you appear?

Mr Steadman—Die-Namic Dies is a manufacturing company. Our services are industrial design and the manufacture of plastic injection and pressed tools for the mass production of most items. We also manufacture and assemble products.

Mr Welsh—Australian Field Equipment contracts to the defence department, manufacturing combat packs and ammunition pouches. We export a little bit overseas to Vietnam. We do a lot of design work as well.

Ms Ganley—Charlton Brown Australian Nanny College trains people to be first-class nannies and childcare workers. We are a registered training organisation that trains people through to an advanced diploma in child care. We also do aged care training. We have a very busy agency placing nannies all over Australia and overseas.

Mr Czeperko—Crisp Technologies specialises in industrial control, electrical engineering and service to the industrial sector.

Mr Willett—Bakenomics builds the equipment for the bakery industry and supermarkets and installs bakeries in Australia and overseas.

Mr Gerns—I am a third-generation smallgoods maker. We make ham smallgoods. We have recently taken a patent on a ham that we sell to the supermarkets, to try and keep our competitors out. We have been going for 107 years.

Mr Howson—I run a business on the Gold Coast and I do a little bit of work in Brisbane as well. We employ about 15 plumbing tradesmen and we have about nine trucks on the road. We service a lot of McDonalds and Kentucky Fried restaurants and a lot of hotels on the Gold Coast. We also do a bit of maintenance.

Mr Daynes—I am a newspaper publisher and an owner.

Mrs Jaques—Cork'n Fork Winery Tours services the area of the Gold Coast hinterland wine country. There are seven vineyards in the area now. We have extended to also service the Scenic Rim Wine Trail, where there are five wineries.

Mr Jaggessar—I am the manager-owner of an RTO, a registered training organisation. My organisation has accreditation to train in information technology up to a diploma level in three different programs: a diploma in multimedia and web design, a diploma in network engineering and a diploma in software programming. We are also accredited to offer these courses to international students; hence we are bringing international students to the country to do these courses, and they move on to university or other areas.

Mrs Finlayson—Aleis International develop and manufacture electronic identification and recording systems to the livestock industry—a national scheme has just been developed in Australia for cattle to be identified—and we also export to other countries.

Mrs Dewsbery—Business Success Group is also a registered training organisation. We are based in Toowoomba but we have training centres in Rockhampton, Bundaberg, Brisbane and the Gold Coast.

CHAIR—Thank you. I will begin the discussion with a couple of questions, and by all means do not feel inhibited by my questions—if there are other issues that you want to raise, you raise them. There are a couple of issues that have come out of this inquiry so far. One has been very dominant from the first hearing that we held with small business people, and that is the degree to which small business people have undertaken training in business skills—in other words, issues like cash flow management, business planning and those types of activities, which are apart from the skills they possess to produce the products or services that they are actually out there marketing. To what extent have you undertaken training in this area? To what extent do you see that as being important for the success of your business? To what extent do you feel that governments are providing adequate mechanisms to deliver training in those skills to the small business community?

The second issue is that we would be very keen to hear about any experiences or examples that you have knowledge of where regulation or over-regulation—the conflict between federal, state and local government regulations—has impacted upon your businesses. Have they made it more difficult to do business, and can you see any measures that may be adopted to ease that burden of regulation that there is on businesses? Someone used the term today that we have ‘regulatory inflation’, and that is a very descriptive way of putting it. Obviously we do have to have regulations in a whole range of areas; the question is whether or not it is done in such a way that it is burdensome for businesses in their day-to-day operations. I put those issues on the table to kick the discussion off, but do not feel inhibited by those I have raised. Who wants to open the batting, if I can use that term?

Mrs Jaques—I can talk on your second issue in relation to transport. Within state and federal laws there are conflicts of interest. We deal across the border a lot—across the New South Wales and Queensland border. Issues in relation to tour operators, commercial drivers licences and anything you can talk about in the transport industry all vary from state to state. I understand that each state has its laws and they have to be upheld, but if a federal law were imposed to cover such areas as commercial drivers licences and all of that it would make our day-to-day running a lot easier.

CHAIR—Have you tried to talk to the Department of State Development in Queensland? Has there been any attempt by State Development in Queensland to talk to the department of state development in New South Wales to try and find a way to resolve some of these cross-border issues?

Mrs Jaques—I have been to three different meetings of a subcommittee on that particular issue. As well, that subcommittee looked at a lot of issues in regard to setting up small businesses in regional areas. We have not got any conclusions from that yet. I was invited to join in on that and I am willing to chuck my hat into anything to try and find resolutions to some of these simple matters that I have.

CHAIR—Does anyone else have similar cross-border issues? Is there anyone else in that environment?

Ms Ganley—The agency section of the Charlton Brown Australia Nanny College opened offices in Sydney and Melbourne last year. These are growth areas for the agency. The difficulties that we have found include the differences in work cover and superannuation requirements in the different states. We are also in the Northern Territory. The head office is in Brisbane. We do all the pays and handle all the compliance issues in Brisbane. These areas are confusing. The paperwork that the bookkeeper and the paymaster are required to do is astronomical, and it would be great if there could be some more cooperation between the states in regard to more consistent laws.

Senator BARNETT—You mentioned superannuation but that is a federal law.

Ms Ganley—I thought somebody might bring superannuation up as an issue. I have looked at the other roundtables and it has come up at each roundtable. I believe it is a big issue for all small business owners.

Senator BARNETT—What do you think about superannuation?

Ms Ganley—I read in one of the roundtable papers that for every nine employees they could have another one if they did not have to pay nine per cent superannuation. In my industry most of our employees are young and I know for a fact that if we gave them nine per cent on their wage, not nine per cent for the future that they may never get, they would be much happier and the economy would be better off. Young people spend money.

Senator BARNETT—We had a number of witnesses on behalf of small business groups who said that a contribution from the employees would be more relevant because it would build in a sense of ownership. Do you have any similar view or do any others have a view on that?

Mr Daynes—There is no requirement now for the employee to take any responsibility at all for superannuation. In years gone by you were invited into a superannuation scheme, you were asked to contribute a percentage and the employer contributed a percentage as well. Nowadays employees do not regard it as a thing for the future; it is just a bonus that goes somewhere and at some future time they may get some of it. I do not think it really features that highly in the income of most people.

CHAIR—There are a couple of points that I think need to be made about superannuation. I can understand it being raised as an issue. It certainly becomes more focused in people's minds the closer you get to 55 or 65 than it does when you are 35, although the reality is that it is the money you put in when you are 25, 35 and 45 that determines the outcome when you are 55 or 65. That is not always understood by young people when they start in a superannuation scheme.

The other issue in relation to super that is not clearly understood, or certainly not articulated, is that the nine per cent that is currently being put into industry super funds was in return for wages forgone by employees. So employees are actually making that contribution, because if the superannuation guarantee fund had not been put in place, wages would be at least nine to 10 per cent dearer than they are now for business. I think that needs to be understood. Employees have actually contributed that nine per cent by forgoing wage increases over the period from about 1986 through to whenever the last percentage rise came into place.

In terms of what might happen in the future, there is an issue there. There is a Senate Select Committee on Superannuation which is currently looking at some of these issues, and I do not know how far they are from coming down with a report on where we go with superannuation into the future. The real issue that is raised consistently by the industry is that nine per cent is not going to be adequate to meet sufficient retirement levels into the future, and I think the figure they have mentioned of about 15 per cent is the real level of contribution that is going to be necessary to deliver reasonable retirement outcomes down the track. I think it is necessary to put that on the table.

Mr Daynes—If you take the comment from here before, that means that is two extra people you would not employ.

CHAIR—That is not necessarily saying that that will come from direct contributions by employers. That is why I am saying there is a Senate select committee currently looking at those issues. I do not know how far they are from making a report at the moment on this particular issue, but certainly the nine per cent was delivered in respect of wages forgone.

Mrs Finlayson—I do not have any problem at all with the superannuation, personally. I accept that it is necessary—that is the way I look at it. However, I would like to be assured that it is being invested wisely and the investment is secure. When we have employees who change jobs every few months and you have to pay super right from the start, I would not like to think that gets lost in the system. That is where I have the problem. I do not have a problem with the super but I do with that. I would like to know that it is invested wisely and safely and it is not being eaten up by bureaucracy.

CHAIR—That also is a big issue.

Mr Howson—We have EBAs, we pay some of our plumbers through the federal award and we also have office staff, and we pay the nine per cent. But the nine per cent is not calculated correctly, because some we pay on overtime, some we pay on fares and travel and some we pay on other components of their wages—it does not seem to be a flat nine per cent. If it is nine per cent, let us make it nine per cent on a 38- or 40-hour week and not on all the bonuses and other things that they get. The clerical staff get a different nine per cent rate on their pay and the federal award is different again. If it is nine per cent, let us make it a flat nine per cent across the board, because it does mean extra bucks at the end of the week, especially when you are on EBAs.

Ms Ganley—That is correct.

Mr Willett—I can speak from experience that that is a problem. In 1992 I had professional advice on how much super we should be paying. In 1995 I was fined \$108,000, and I had to pay it all, because we missed out by one per cent. The professional advice was that it was gone; he did not know what might help me. To have over \$100,000 in cold cash taken out of your business, with the costs of going back and trying to work out that one per cent, is an absolute nightmare. We could have fought the ruling because the rule was a grey area. We had professional advice, and I relied on that professional advice—I got the best I believed I could. It was wrong and it cost me a lot of money. I would rather know straight up front that it is a

certain amount of money—10 per cent or whatever—of a given amount. We should make it simple and let us do it.

Mr Welsh—One of the issues raised was that young people like to spend money. I think there is a lot of responsibility put on the business owner to actually take care of that superannuation. There are facilities today such as electronic transfers and banking facilities and there would be no reason why people could not get paid their super in their pay. It then becomes their own responsibility rather than falling into the trap of someone falling over and you lose all your superannuation deductions or whatever.

CHAIR—I understand the point you are making, but the reality is that we have the system we do because Australians do like to spend.

Mr Welsh—Of course, yes.

CHAIR—That is the reason it was built in the way it was: to ensure that it did not get spent and that it was secured for the future.

Mr Welsh—Sure. One of the points I would like to make too is that, for instance, I am ex-service and contributing to Commonwealth super, or MSBS. I cannot move that superannuation; it is not even realised. I spoke to the superannuation people and they said, ‘You can’t move that super; it doesn’t exist until you retire.’ What is the difference? Why is it different for the government than for private industry? Why can’t I move my superannuation?

Senator CONROY—The Commonwealth scheme is what they call an unfunded scheme. It is unfunded to the tune of \$80 billion, for every public servant—

CHAIR—It is defined benefit.

Senator CONROY—yes, because it is a defined benefit scheme—whereas the private sector ones are largely now accumulation funds, which means the money is put in up front rather than: ‘You’ll get paid X dollars when you retire.’ When they say to you the money is not there, technically that is right.

Mr Welsh—Is that growing every year?

Senator CONROY—Yes, it is \$80 billion and it goes up.

Mr Welsh—Then it becomes a taxpayer problem?

Senator CONROY—The \$80 billion is the figure that they would be up for if every single person retired on the same day. They do a calculation of how much money they will need based on people’s retirement ages. I am not trying to suggest to you that the money is not there if necessary—

Mr Welsh—I know that.

Senator CONROY—but they do a calculation based on people's ages and they say, 'Next year we're going to have 10,000 people retire and that's what we're going to need,' so that is the money that is available and they bring it out of consolidated revenue. There are a lot of arguments that the government should not have an unfunded superannuation fund liability. One of the arguments about the proceeds of the sale of Telstra is that many in the community would say, 'You should take the money from the sale of Telstra and pay off the unfunded liability in superannuation and put it in there to be managed.'

Mr Welsh—But isn't that limiting me in terms of what I could do with that super, if I wanted to transfer it to another fund?

Senator CONROY—No, that is a legit question around the choice of fund argument that is being had at the moment. The Commonwealth have, by and large—I do not know about military but for public servants—closed down the old scheme and they now have an accumulation scheme like those for the private sector. New public servants now have the same type as everybody else, but there is a problem in terms of how you access money that does not exist in that strictest of senses. If you joined now, you would be in the new scheme, which would mean you could roll it over to somewhere else, but for the moment technically you cannot roll it over. I myself have a similar problem; in a defined benefit fund you cannot get the money out. It is the nature of fund. It is an old-fashioned style of fund.

Mr Welsh—From my point of view, I just saw it as two different rules.

CHAIR—That is essentially it.

Senator CONROY—It is just that the old-fashioned schemes work that way and the new schemes work in what is probably a fairer way—I think that is the way to describe it. I think you have a legit gripe.

Mr Gerns—I think governments should live within their means. Currently, 50 per cent of all private profits go to government taxes. If they lived within their means, we would not have to pay so much superannuation because they would be able to fund a little bit themselves—that is part and parcel. It is like the 38-hour week. It has all come in at a time when we have the 38-hour week, superannuation and, in the food industry, less profits. I can give you some examples if you wish. Prime cuts of meat are the same price now as they were 20 years ago, when houses were \$20,000. Now, houses have slipped up to \$200,000. Does that mean the graziers have to sell for the same price in 20 years time, when houses are going to be worth \$2 million?

CHAIR—That is a good question; none of us can answer it at this point in time.

Mr Howson—I believed, and I do not know whether I am misinformed on this, that a certain percentage of superannuation was supposed to be reinvested into the building industry and other industries as a component; it was 10, 15 per cent. I would like to know where that money is going and whether we have seen any of it. I do not think that we have.

Senator CONROY—The Commonwealth do not direct any super funds to be spent in any particular way. Cbus, the construction industry fund, do have a policy, I believe, of investing in construction and buildings. Certainly in Melbourne a number of buildings, a number of major

CBD projects, have been built on the back of Cbus funds. I think it is fair to say that the state branches of the construction union have pointed to the fact that all the construction seems to be taking place in Melbourne, where the head office of Cbus is. That may be a valid criticism, but I know that there has been an active debate about why they are only building in Melbourne and not building in some centres around the country. That has been a legitimate debate taking place. The government do not mandate that 'you must do this with your money'. There are some who argue that it should be put back into the regions, for instance, because nine per cent is a lot. I am Victorian, so if you take nine per cent out of everybody's pay packet in the Latrobe Valley, which is a very depressed area, and you give it in to the central funds and the central funds invest in Melbourne or they invest in overseas bonds or shares or whatever, then you have got a net loss to that Latrobe Valley community, and there is an argument that some mount that you should be investing that money back into the regions.

Mr Howson—Are they going to do that?

Senator CONROY—It is a difficult argument in both directions, because by investing in the Latrobe Valley you do not necessarily get the greatest rate of return—in other words, you will have a lower payout when you finish. It is a really tricky argument because if I was to come to you and say, 'I'm prepared to invest in the Latrobe Valley but, instead of getting 10 per cent, you are only going to get five per cent a year on your super returns, and therefore your final payout, instead of being \$450,000, is only going to be \$220,000 for you to live on,' then you have got to make that balancing decision. The government does not want to do that. The government does not want to mandate. I do not think any government of any persuasion does. I could be being unfair to John and the Democrats—I am not sure what your position on that is—but certainly the coalition have always opposed that as well. Individual funds can make those decisions. In terms of your fund, it may be that you, as a member of the fund, are wanting to mount an argument that you think more money should be spent, for example, on building a few sites on the Gold Coast rather than on building five tall buildings in Melbourne, and I think that is an absolutely legitimate argument for you to have.

CHAIR—Let's try and move on from super. None of us on this side of the table have got personal indemnity; we would not want to be giving you advice and getting sued down the track for giving you the wrong advice. But I am sure that Senator Conroy would be quite happy to advise you after we have finished today.

Senator CONROY—I do not have a licence to give financial advice.

CHAIR—Let us move on to some of the other issues.

Mr Daynes—I want to ask one last question about superannuation. I manage a project with about 52 people in it. When they come to be employed, nearly every one of them has got a different super fund. Is there any regulation? I do not know about the legitimacy of any of these super funds; obviously, there are the major ones like Sunsuper and so on, but I am sometimes quite nervous about paying into these super funds.

Senator CONROY—There are certain requirements, and APRA are in charge of policing these things. But APRA, unfortunately, in probably the last two years have not got a great track record, and that is why you can hear some stories about safety of super and so on because of a

few funds, particularly in Queensland. I do not know whether the case of EPAS rings a bell with anybody. It is a fund that went belly up because there were very poor investments. To be fair though to the industry as a whole, overwhelmingly 99.8 per cent of the funds are safe. There is a famous one in Sydney at the moment called CNAL, Commercial Nominees, that has lost a lot of money because they loaned money to the private business interests of the directors of the super fund.

Mr Daynes—Does the employer have any responsibility to ensure that these super funds are safe?

Senator CONROY—There are certain requirements to gain tax-deductible status. I could come to you and say, ‘Here’s my personal super fund; you can put the money in,’ but unless I am registered with APRA I am not able to get the tax benefit of being a registered fund. So there are some protections, though you will not necessarily know that when you fill out the form. I have not seen the form lately, but my recollection is that there is a box asking, ‘Do you have approval from APRA?’ or whatever the requirement is. That approval means that APRA will supervise to ensure that the right thing is being done. You cannot stop fraud, and that is what has happened at CNAL—basically, the director ran off with a callgirl and currently lives in Bolivia.

Senator CHERRY—Could we move off super?

Senator CONROY—I am happy to move off super; I was just answering the question.

Senator CHERRY—Today we have heard a lot of government advisers, from the Department of State Development and elsewhere, talking about mentoring and trying to customise assistance to small business from area consultative committees and so on. I would be interested—because most of the people around the table appear to be from established businesses—in your views on the issue of taking business up to the next level of growth and what sort of assistance comes from government, or what sort of assistance you think you would need from government, or from anybody, to achieve that next growth stage—for example, to go from being a company of five employees to a company of 10 or 15 employees or to start exporting? What is out there, does it work, is it helpful and what do we need to do?

Mrs Finlayson—We are at that stage now. We have about 18 employees, and the next stage is to have a shadow of every position. We have one person for each position; the next jump is to employ a shadow for each and have two people. The thing that makes me very nervous is payroll tax, and I think that clarification of exemption from sales tax is essential. For people who are not exempt, it starts at \$850,000. Jumping from \$849,999 to \$850,000, a person who is not exempt is up for \$40,000 for \$1.

Senator CHERRY—This is payroll tax?

Mrs Finlayson—Yes. Some people are just not exempt. The payroll tax makes me nervous about going up. Work health and safety puts an incredible responsibility on us in interviewing people. We have spent money on running advertisements and interviewing so many times and not employed people, because of the industrial relations threat, payroll tax—just going over that threshold—all those sorts of things. That is what stops us growing.

Senator BARNETT—What industrial relations threat are you talking about—unfair dismissal laws?

Mrs Finlayson—Yes. If people do not want to work, they will come and hurt themselves and then blame you. We buy people goggles and steel-toed boots, but they do not want to wear them. So what do you do? I think the responsibility has to be shared more evenly between people's self-preservation and the employer. At the moment, the scales are weighted too much on the employer's side.

Ms Ganley—I agree.

Senator BARNETT—Are there other impediments to small business growth? You mentioned unfair dismissal—is that another one?

Ms Ganley—I want to support the comment on payroll tax. The Queensland government has given some companies coming into Queensland advantages in regard to payroll tax. My suggestion for small business is that Australian owned companies be given exemption from payroll tax, and then we would all be able to employ more people.

Mr Jaggessar—I am here to talk about going to the next level of business in relation to mentoring programs. I have been talking to the local government about mentoring programs, about people who are available to help in taking me to the next level. We have found nobody who will put up their hand and say: 'I know it and I can teach it to you, do it for you and show you the ropes. I've been here 10, 15 or 20 years and I can spend an hour with you.' I sent 20 to 30 emails before one of the school heads sent a reply saying, 'I can offer you an hour to talk about it and show you what you can and can't do.' We understand that we do not teach the same thing—you may have an English school, you may have a nanny school; I do IT, which is totally different, yes.

The other things I want to talk about are immigration policy and access to international students. We have previously had a big market in this area. The changes in the laws have created a situation where international students do not want to come to Australia anymore because we demand too much in the criteria they have to meet before they can come. Let us put it into perspective. If a student wants to come here to do a \$12,000 course, in his home country he must have the equivalent of \$12,000 in his bank account plus another \$12,000 for living expenses for the year. If a person has to buy \$24,000 worth of rupees in his country, why should he study? He does not need to study. He can become a businessman. He can buy a small business; he does not need to come here and do a diploma or a university degree. If he has to do a university degree he needs the equivalent of \$50,000 in his home country. That is like a million dollars in his home country. He does not need to come to this country to study. He is more attracted to Canada, to the United States or to Britain, where he can go to study. We have probably lost \$250 million in the last six months in education, so something has to be done somewhere.

CHAIR—Have you raised these issues with Immigration?

Mr Jaggessar—We are too small. We are currently in the process of raising these issues with Immigration. The Queensland Department of State Development has set up a forum for it. As

individuals we cannot do it; we can only do it through a forum or through ACPET, the Australian Council of Private Education and Training. We are basically working on it. The impact on small business is that it has to compete on the same level as the universities. If some university starts offering a nanny college, a small business like the nanny college will have no chance because the criteria that students have to meet to be accepted at university are the same as those for being accepted at the private nanny college. We have found from research that students who want to go to the unis and TAFEs that are offering the same courses that we offer have far greater success rates in getting a visa for attending one of those than for coming to one of our private institutions. So there seems to be a number of discrepancies. I am not sure if anyone here in small business training would be able to agree with that.

Ms Ganley—Everything you are saying is correct. ACPET has been taking that up at the federal level and is as anxious about these issues as private providers are.

CHAIR—Has there been any response from the minister or from the department?

Ms Ganley—Not yet.

CHAIR—How long ago was this raised?

Ms Ganley—It is continually raised at the meetings in Canberra.

Senator BARNETT—What are you actually seeking—is it a reduction in the cost of the educational services? What is the issue?

Ms Ganley—We are looking for an equal playing field, which is not the case at the moment.

Senator BARNETT—With whom? With other countries?

Ms Ganley—Within Australia we are looking at an equal playing field between the private training providers and the universities. Robin is exactly right: we are losing our markets, because the UK, Canada and America are now marketing into our preferred markets.

CHAIR—In relation to overseas students, what is the difference between what you provide as private providers and what the universities provide?

Ms Ganley—The difference is that higher education and vocational education are treated differently.

CHAIR—But, in practical terms, how does that express itself in the cost of bringing in overseas students?

Mr Jaggessar—The courses taught in the vocational area are hands-on, practical training: ‘can I do, when I do, can I do it again’ courses. The courses taught at university are more theoretically based and are principally based over long-term learning. If you bring in an overseas student, he would prefer to go to a university because he has an opportunity to apply for permanent residency at the end of the university course. If he can get away from ‘hands-on,

let's learn, let's get into English, let's get into IT, learn about it' training and then go into university, he will go straight into university.

The criteria for both of us are the same: for us he has to have a 5.5 score in English, and the universities have 5.5 as well. But when he comes to me or to another private provider, we have all the infrastructure in terms of support, because he is doing it hands-on. When you are doing hands-on training, it is visual: 'I do'. When you can do and see at the same time you learn more, even though you have a language barrier. At a university you sit in front of a lecturer with 500 other students, the lecturer spends two hours bombarding you with knowledge and walks out. You have to go back and make your own support structures for those things.

Hence we now have this problem where the universities have moved from long-term traditional learning into the market of vocational training to boost their own budgets. Where a university would have previously taken students from us into their programs, they now offer our programs at the university—good enough, no problem. But, since they came into the vocational education and training area, they have started to attract all of the students who would normally have come to any one of us. That is one area.

The second area is, if we are both offering the same qualification—which is set out by ANTA, the Australia National Training Authority—a university would not accredit your course although it has already been accredited by a body above them. They do not want a student to do it with you first and then go to them. It is all about money. With universities being able to charge overseas students twice and thrice the price of a local student, they can boost their budgets in that way.

CHAIR—Essentially you are saying that they have moved down into your marketplace.

Mr Jagessar—They moved into our marketplace. Private providers cannot fight that, because they have the support of the government in terms of lots of officers all over the world recruiting students. TAFE has the apprenticeship system, a big area where students do not want to do it: why should you pay for your courses when you can get it for free? It is good that we are trying to educate the population, but at some point the population is going to have all of these people who were traditionally non-learners spending three years in an area where they are going to get paid and then going back into the non-working environment.

Mr Czeperko—I would like to relay a personal experience that I think highlights one of the reasons why small businesses are finding it difficult to put on young apprentices. We recently went through the process of attempting to employ a new apprentice. I approached Commerce Queensland to give us some guidelines. After the gentleman came out and explained to me the regulations and all of the criteria involved in employing an apprentice these days, we made a conscious decision that it would be not be commercially viable to train my secretary up to make sure that we complied. Unfortunately, we decided not to employ that particular apprentice. We advised him that he should perhaps look at a group employer who is set up to do all of this.

CHAIR—In what area were you taking the apprentice on?

Mr Czeperko—Electrical contracting. At this point in time, we are finding it very difficult to get good tradespeople. There is a shortage of tradespeople, and I believe that this trend will continue over the years, because companies like ours are not going to be putting on apprentices.

CHAIR—The inability of small business to get the skilled labour that it is looking for and that it needs is an issue that has been raised consistently at all the roundtables and hearings we have held. Part of the problem is that small businesses have notoriously been bad trainers in the past; they have trained very little. Historically, in this country, the bulk of our skilled tradespeople came out of the public sector, public utilities—the water boards, stockyards, electricity commissions and so forth—all of which in the past 20 years have been privatised.

A report recently prepared for the Victorian manufacturing council says that one of the major reasons for the decline in training in the private sector is that business has become so lean and mean that there is no fat left in it to actually carry on the training of apprentices. I wonder if you are having a similar experience. Is that part of the problem in terms of the capacity of small business to actually take on trainees? Is it a matter of the pressures you are under to keep costs down and of not having the fat to be able to set aside resources to do the actual training?

Mr Steadman—The core of our industry is toolmaking, which is the highest standard of precision engineering that there is. We currently employ three apprentices. There is an incentive by the government to do so. Also our industry is on the shortlist, so there is an additional few more thousand dollars there. We find that on that side there is a pretty big incentive for us to employ apprentices, especially being a small company having three, and we are looking at getting another one at Christmas time.

Getting tradesmen is awful. We just cannot get skilled tradesmen. In the 1980s there was a big lull in apprentices being taken on. The people that would have been trained in that time have retired. We have found a gap there and that source is lost, so there is no-one there. A lot of people in our industry have tried getting them from England. India was another area; it is becoming harder to get people out of there. Everyone is now targeting South Africa to get tradesmen out of that country.

We find that we cannot attract apprentices when we advertise. A trade seems to have a stigma that, if you are not successful at school, you are going to do a trade; that is what you are going to get. In our industry in Europe, advertisements are not in the trades and technical columns; they are in the professional columns. There is some pride there. But over here we find that, if we get people from schools, they are the drop-outs. We are still dedicated to employing more and more because there is that gap there and we keep telling everyone in our industry that we have to start getting that thing going so that in the next 10 or 20 years there will be a pool of tradesmen for us to choose from. I think a lot more education needs to go into the schools to educate the children as to what a lot of the trades now offer. They are not just dirty, filthy, gutter jobs.

CHAIR—Is that what young people are saying to you, Graham, when they come and apply for a job and you interview them?

Mr Steadman—Yes. For one, it is hard to get applicants anyhow. There was a comment made recently by someone about a large toolroom down in Melbourne. It is regarded as quite

advanced in world terms. The people there regularly invite schools to bring students through to look at all their latest machinery. They use a lot of robotics or automated sensing equipment. After they took all the kids through and when the kids were in a back room, one of the teachers from the school said, 'If you don't do well at school, this is what you are going to do.' The person who told me this said he could have killed this person. The teachers in schools have that mentality.

CHAIR—I was going to make that point. What seems to have occurred, and I have come across this on a couple of occasions that I have been to universities, is that we have lifted the measure of success for young people: these days if you do not qualify to be a doctor, a dentist or a lawyer, then you have been unsuccessful in your career choices. Twenty or 30 years ago an apprenticeship or a trade would have been seen as a reasonable success in terms of career choices. But these days it is not, and you have just reinforced that by what you have just said.

Mr Willett—To answer the question about whether we could employ more people and expand the business, I am fortunate enough not to have any labour problems. I do not know why that is. I pay good money. Honestly, I do not seem to have a problem. If we need somebody, we get them. The position we are in—our locality—has a lot to do with that. The concern I have is about expanding my business and the manufacturing business, in particular the metal manufacturing business. If you look at the metal manufacturers in Australia who do not go into buildings and assembly or are more into the manufacture of small items or machinery, you will find that they are dying on the vine.

In the bakery industry 20 years ago there was something like 15 manufacturers in Australia, and now I am the only one left. Everybody else now is bringing things in from Taiwan or wherever. The only way you can expand your business and to survive worldwide is to have a huge amount of research and development and produce something that nobody else has got. To do that you have to put on patents. There is no assistance for patents. The bank will not back you. A world patent will cost up to \$¼ million, and the bank does not want to help you with that. It is not seen as an asset, and nobody gives it a dollar value. It is a problem all the way along the line.

You can only build your business and expand your business if you are in a situation where you are making profits and you have a lot of money. When you are trying to make a profit to put something by to be able to expand your business next year, it is very difficult to have a growth more than about two or three per cent. You need more than that to employ people in real terms. To have a growth of 20 per cent in your business, you need to have more development and there has to be more help from the Australian government for research and development. There just is not enough there. When we export overseas the help is almost nil. We might as well do it ourselves. We just do not even bother applying any more for help. There is just no assistance to export. Everybody I meet tells me the same thing: there is no assistance there and the risks are too great.

We need exports for when the Australian market dries up. It is seasonal—our business is seasonal and there will be a lot of people here who find the same thing. In those dead seasons you can go overseas and get business. There is a whole pool of it over there. But you cannot go and get it if there is no help. We just cannot afford to go and get it, but we know it is there.

Senator BARNETT—Can you be more specific? There is obviously the export market development grants and Austrade. Are they not helpful?

Mr Willett—Yes, it all comes off your tax. It is all tax deductible, and fabulous if you make a profit.

Mr Steadman—Just last week we came back from our second trip this year to China. We have the same thing. We have been into Thailand, Indonesia and Canada and now we are trying to tap into China to get tooling orders. We have been to the Queensland Department of State Development and gone to several of the courses. They are quite good actually. But they are only at that small level and there is not a great deal that they offer for the next jump. We have used Austrade on both trips, and they charge \$195 per hour for their services. For a small business to try to get into another country it is an awful lot of money to pay for the services.

In China we need interpreters everywhere we go. They put them at a premium rate as well, because we know how much the interpreters were getting paid. Even though Austrade is set up to help, it is just not viable for us to tap into those markets. The export market development grant that you talked about is good to some degree, but it is just for that first visit. As soon as you get one order, bang it is finished. That one order might only be worth a few thousand dollars, which is nothing. That grant has only just started as well.

CHAIR—It has been around for a long time.

Mr Steadman—No, I am thinking of the Austrade grant. It is a \$15,000 threshold, that is right. That is actually an incentive for us—I am sorry.

Mr Willett—From our point of view, when you hit the bottom line to work out the cost to go to the US, for example, which we would like to do, the cost for getting the approvals to go into America and the risks involved in being able to market something new into a country, it is very difficult and very expensive. We cannot afford to do it. We cannot get a bank to back us; we cannot get any assistance whatsoever. That is why you see so many good ideas go overseas—because there just is not the fostering. I can tell you right now that I made application and I have inquired about going to build in Korea. They said, ‘Come to Korea. We will give you land and buildings only an hour south of Seoul and it will cost you nothing. It will be a 99-year lease. You will pay no tax for the first five years and only 50 per cent tax for the five years after that.’

I am not after handouts. But sometimes you have something that is a good idea but which costs a lot of money—and the system that we developed cost us \$4½ million; we had to mortgage everything and put everything on the line. When you go that far and you have something that is working, we believe that surely somebody else should be able to come in and make some sort of value judgment on the ability of that machine to be sold overseas and then be able to back you, without selling your soul and selling half your business to a multinational.

Senator BARNETT—Have you had any support at a state or federal level?

Mr Willett—We have had support from the state. We have a machine that has recently gone to Greece. We are out of pocket by over \$85,000 for that job alone, but we will not get any financial assistance until the end of next year when we will get 50 per cent of the cost of that job

off our tax—if we make a profit. An assumption is always made that you are going to make all this profit but you may be just trying to expand your business and not necessarily trying to make a lot of money. You use all your profits to build the business, expand it and employ more people, but it does not work.

Senator BARNETT—There is a quandary in that a lot of small businesses would say to government at every level—federal, state or local—‘We want government to get off our backs so that we can get on and do our job, in terms of regulation, red tape and taxes, so that you can reduce our taxes and then we can spend the money that is available.’ That is one angle and the other angle—

Mr Willett—All I can tell you is that I have been in business now in the same industry for 35 years. We have gradually seen a decline in the industry of the ability of people to do things like employ and train people. You were dead right before when you said you cut everything to the bottom line; it is that competitive. You have to pull out every stop to try and stay in business and stay competitive with all the imports that are coming in at such a low price.

Mr Howson—Can I put a positive twist on all this?

CHAIR—Sure.

Mr Howson—Are we allowed to make some positive comments? I know all of us here have problems.

CHAIR—Go ahead, by all means.

Mr Howson—We developed a plumbing product which we patented. We injected, moulded and had a die made. We received assistance from AusIndustry. We received a COMET grant for \$50,000 for the IP. Last night, we got the mayor’s innovation award for the plumbing product. AusIndustry in Chicago did a quick market research analysis on our product and it came back very favourably. We are meeting with them on the 18th of this month. We have had a quick market assessment in Milan and in New Zealand. The report we got back from New Zealand was that it was the best quick market research analysis they have ever had on a product—so it is very good.

CHAIR—It sounds as though you have hit gold!

Mr Howson—Our product is a good idea; it stops rubbish going down the floorways during construction. I am a plumbing contractor. We get caned with it on every job and this system, a fitting that you fit in, solves all the problems. It has been specified in the Lavarack Army Barracks construction in Townsville. It has been fitted to the Q1 tower project on the Gold Coast and it is working well. It works well for us because being plumbing contractors we use the product ourselves which means it is out there for people to see. Last night, I was given the award by Margaret May, the federal member for McPherson, and Steven Ciobo was there—it was good. As plumbing contractors we employ apprentices but the fact is that we have a skilled labour problem. We have apprentices working with the guys who work for us. So our guys work longer and harder for us because the fact is they are not digging and physically doing the hard work—the apprentices do that. The guys who work for my company, who have been with me

probably for eight, 10 or 12 years, work for me because I put apprentices on. If they have to dig in the trenches and work hard seven days a week, they will do it for me for a week or two weeks, but they won't do it consistently. So we employ apprentices to do the labouring work for the tradesmen. It offsets one against the other so it works very well for us.

Mr Gerns—I can understand that; but all that glitters is not gold. In Australia, if you are going to invent something you have to make it simple; it cannot be complicated. And you have to know that there is a market for it. Normally, before inventing something, someone will say, 'I need a drain'—in the plumbing instance. And someone who wanted my product wanted a ham off the bone that they could sell in the delicatessen, so I went out and invented a thing so they could slice it on an automatic slicer.

In Australia, when they see that you have done something, the culture that gets into your workplace is unbelievable. Everyone is against you. All the work force get together—it is like a cocoon. You nearly have to go from there and start a new establishment a thousand kilometres away with new employees. It is as simple as that, because it just does not seem to work how you would like it to work. They are all a bit jealous that you happened to come up with some new idea that is innovative and that is going to let you go ahead. It is all right while you are going bankrupt, but when it looks like you are going to make some money they become very unhappy.

Mr Willett—Could I extend that conversation just a bit further. You have a great idea—excellent. What is the next step? If you do not go and put a world patent on it within one year and pay a lot of money, like \$150,000, somebody is going to copy it overseas and bring it in at half the price you made it for, and all your work and all your time is dead. That is the problem. Who can come up with \$150,000 within one year? That is how long you have from the provisional patent to the complete patent: one year. How can you come up with that sort of money, and who will back you for that little idea? That is what it is all about. I am talking about something here that costs probably a small amount to make and I am talking about something that I build that is a little more expensive. But that is the problem.

Mr Welsh—I quite agree. I am in a similar situation in relation to a patented device—it has an overseas market now. The time line is absolutely out of the ballpark. As you said, you have to come up with \$150,000. One of the things that I think, in relation to government funding like COMET, QUIDS and things like that, is that their time lines to assist business do not fit in with the commercial speed of development. A comment made by Austrade at a recent meeting was: '10 per cent of Australian businesses export; one per cent of Australian businesses are real exporters.' It really comes back to what you were saying, Senator, about the fat in the business. If we are the most clever country in the world in relation to IP ideas, where is the problem? One per cent of Australian businesses are exporting. The figures just do not add up. There is no fat.

Mr Daynes—I hear people talking about the lack of skilled tradespeople. I am the project manager of Beaudesert Rail, and since February this year we have employed 52 long-term unemployed tradespeople. Their presentation is not so hot when they come for an interview, but their workmanship is absolutely superb. My greatest dilemma is: why are these people unemployed? I do not know why. I think that sometimes employers put the hurdles too high, they put the criteria too high. I have plumbers, carpenters and cabinet-makers, and you ought to see the workmanship of these people.

The first lot of CJP people we got—there were 12 of them—were asked to write in for jobs. Only the people who could write and put decent resumes together actually got the jobs. We thought that we were eliminating a lot of people so for the next three CJP projects we asked them to drop into the office. Some of them were pretty disgusting; they could not read, they could not write and they did not present well, but they were very good tradespeople. Three of the programs are finished. There were 30 people on those three programs, and 28 of them now have full-time employment.

Senator BARNETT—What program was that?

Mr Daynes—It is a community jobs program called Beaudesert Rail. It is state government funded. We took these people on. Of the 30 people who have finished the program, 28 now have full-time employment. We are talking about kids from 21 to tradespeople of 58—I think that was the oldest one we employed. They cannot get jobs, no-one will give them a shot. They have a lot of knowledge, they have a lot of expertise and, as I said, they are all long-term unemployed. They come into our program and they go out with a great deal more confidence. They feel a bit better about themselves and they do get jobs. But I feel that most employers make it too difficult for them to get jobs. A lot of employers are looking for the perfect employee, and there are very few of those around. I am sure that everybody here has dismissed people or found somebody that is inappropriate. There is no perfect employee. Judi knows about the project.

Mrs Jaques—I do indeed.

Mr Daynes—The workmanship of these people is absolutely superb. They are building railway carriages; they are building sheds; they are resurrecting railway lines. It is amazing; absolutely amazing.

Mr Gerns—I think it is amazing that these people can do all that because we do not get people like that in the workplace. In the food industry, you cannot wear jewellery and you cannot wear a watch. Just yesterday there was a fellow wearing a watch. So I said to him, 'You can't wear this. It's illegal.' That was in the morning. In the afternoon I walked into the plant and saw something he had done wrong. So I said, 'You'll have to rectify that,' and he did not want to comment on why it had been done. I said, 'Why would you think it was right to do that?' He did not comment. There was nothing. Then I said, 'By the way, I told you about that watch this morning and you haven't taken it off. You have to take it off now or suffer the consequences.' He said, 'I'll go.' So he went; he walked out. He will not come back but he has been paid. He got a couple of hours for nothing so he thinks he has beaten me. But that is all right. We are not worried about the money but just the fact that they do not have any fortitude and do not realise that in food you cannot wear bits and pieces of jewellery.

Mr Daynes—In the last program we had 12 jobs and we had 85 applicants, and they were all tradespeople.

Senator BARNETT—I will ask questions to stimulate things a bit. We have heard some success stories and some very positive things. We have heard some impediments to small business growth. Can I just throw it open to you to come up with any other impediments to small business growth or other success stories—for example, anything that the government are

doing well or maybe that we need to improve? This morning Senator Cherry indicated that we had heard from the Department of State Development and they indicated that their business licence information service was very successful. They talked about SmartLicence. A quick question on the red tape and regulations: is that an impediment to growth or is that not such a big issue for you as small business people? There are some open-ended questions.

Mr Gerns—We have to meet with all ANZFA standards. They keep changing the goalposts every week. We make packaging with all the new standards, and they have been doing this for six years—since Garibaldi. I represent the National Meat Association for the small goods industry in Queensland and everyone is horrified. They cannot keep up with the new standards. Some people are even getting to the stage now where they have to make packaging for each line—six different types of packaging depending on the meat they are using because of the new standards ANZFA want to make. If you want a certain type of meat you have to say what type of product you are putting in there. Because of the fat content that might be in that meat, from time to time you must use a different type of meat. In fact, if your pork is only 75 per cent lean, you have to use 95 per cent beef. And vice versa: if the beef is fat, you have to use lean pork. From time to time, what your stocks are is what you have to put on your label. That is a real impediment for the food and meat industry in particular.

Mr Howson—I have an issue. In the building industry, it is guarantee of payments. Going through the Cole commission at the moment, guaranteed payments is an issue; it is a strong issue. In what industry could you go in and buy a TV set with a credit card with free credit? You pay \$2,000 for a TV and yet in the building industry we turnaround and give \$30,000 or \$40,000 free credit with no interest on it to a builder who does not pay? There is no other industry like it. It is unbelievable. I have a few notes here. It has here, 'Short pay. Don't pay. Will not pay.' That's the building industry. You are asking us to go forward; we cannot go forward because we are going backwards all the time.

We have days—and I could mention certain large contractors here in Brisbane—where some of the payments have been owing for 600 days from the time we start the job to the time we finish it. You are talking about nearly two years. That is because of retentions, because of non-payment of variations, and because we have to pay GST on accrual and on products. And then we do not know when we can bill our variations, we go through the system, we do the GST on it and six to 12 months later they turn around and refuse the variation and then you are back into them about the variation. Admittedly, we can bring it all back and all that sort of stuff, but we have \$200,000 a month in turnover and 30 or 40 per cent of that is in retention, non-payment of variations and people who just do not pay.

It is ludicrous that it is like buying a TV set on credit with a credit card with free credit. When we go on a plane, will they let us pay the money at the end of the trip on the plane? No, it all has to be prepaid. And yet the building industry is such that we get this builder who we do not know—we do credit checks on them, which we have restraints on—and we give them \$30,000 or \$40,000 or \$100,000 worth of credit. The bank will not give us this sort of credit and yet we hand out this money hand and foot to these people. I think it is a joke and we should do something about it. It is right across the board; Nick would agree with me in that, because he is in the electrical business. It may occur in the tool-making business as well, because that is in with the building industry. It just needs some adjustment; it needs something done.

CHAIR—Has this been raised in the Cole commission? Has there been any comment made about it?

Mr Howson—In the Cole commission they are raising the issue of guarantee of payments. I have got notes on that—I am glad you asked me that.

CHAIR—I thought that was what you were angling for.

Mr Howson—No, the Cole commission is not finished. But when the Cole commission does adjourn and makes its decisions and all that sort of stuff we want to know what measures the government is going to take to protect the contractor who goes against the unions with the Cole commission in regard to EBAs and guarantee of payments and things like that. There a number of issues there and I did not know whether you wanted to bring them up today.

We are only a small contracting firm and we are doing EBA number 4. I have got a list of their demands here. They are going for a 36-hour week and an agreement so that when you go over 45 hours it is paid four times the hourly rate and so on. It makes it very interesting. They are also going for a cap so that anything in excess of 52 hours in one week is to be paid at four times the hourly rate, except when written agreement has been obtained by the union. In terms of family leave, the demands say that a total of five days of the personal leave entitlement of the award shall be made available for family leave, which shall include paid maternity leave and the opportunity to take it off to attend parental responsibilities, as well as no accruals of RDOs, one sacred Saturday per month—and it just goes on and on. That is great, we enjoy doing this and we have nothing better to do!

CHAIR—Do you do the negotiations yourself?

Mr Howson—Would I do things like that? No. I would just like guarantee of payments. I would put more people on and more apprentices on if I could honestly say that my debtors are 60- or 90-plus days and that it is actually real bankable money.

Senator BARNETT—Is that rife throughout the industry in your view? Are there other people that have similar views to Les Howson?

Mr Czeperko—I think everyone has about \$1 million worth of stock in debtors.

CHAIR—Is that pretty general for manufacturing?

Mr Welsh—Yes.

Mr Steadman—I will be careful what I say here, because, coincidentally, Mr Welsh is one of our customers.

Mr Welsh—I have got to be careful too!

Mr Howson—He doesn't want to pay you for the summer!

Mr Welsh—I am the only bloke that has payed you up front, mate.

Mr Steadman—We try and cap it by using starting deposits and progress payments. They do that in some cases in the building industry. But it is an issue for us, because the cost of certain tooling is quite expensive in some cases and we could be carrying a lot of debt there. I did not think it was a government issue; I just thought it was that the rest of our industry is allowing it. I guess it is collusion, but if everyone had an industry body and you had a set of rules so that no-one would operate in that that way then you could get your money up front. But if we operate that way they will go straight to the guy next door, because he will offer them that credit.

Senator CHERRY—Is that an issue mostly with smaller or larger business clients? Is there an issue of misuse of market power with the very big corporations dealing with you?

Mr Steadman—Not really, no. It is just that they will not pay up front or that you might have done \$50,000 worth of work and then have to wait 30 or 60 days for payments; times that by a lot of customers.

Mr Howson—I think what we need to solve all our problems is a dispute council that is quick, painless and solves these disputes within 14 days. People should have the money in the bank before they go to contract with you on your tooling device or with me on my plumbing and electrical contracts. With dispute resolution, there would be 14 days turnover: ‘You are outside trading terms. Why aren’t you paying?’ We get to 30 days and they have not paid and they say, ‘Next week.’ Then it gets to 60 days and you think, ‘What’s going on?’ At 90 days, they turn around and complain about the product and you say, ‘You can’t complain about the product 90 days later; you get a certain time to complain about it.’ A dispute resolution council or something like that in the industry would help everybody.

Senator BARNETT—Are you saying just for your industry?

Mr Howson—Everybody. Why should we have to go through the process—

Senator BARNETT—What you are saying is that the legal system is not working. Is that what you are saying?

Mr Howson—I do not think you need to go to solicitors, to arbitration, to the BSA or to any of that sort of stuff. It would be just a plain, straight down the middle determination of whether you are right or wrong. It would be for: ‘If you contracted to buy the TV for \$2,000, why haven’t you paid it?’ Or for: if I were doing your plumbing for \$2,000 and you said, ‘Well, I’ll pay you next week.’ So it would be that, if you go outside the 14-day trading terms, you go to dispute resolution. So they would go, ‘I don’t want to go into that; I’ll pay you the money.’

CHAIR—It may be different in the commercial world, but a couple of years ago I did a renovation on my home. The builder who did it used a standard contract developed by the Department of Fair Trading in New South Wales. It had provision for the payment of variations and so forth, and it had penalty clauses if you did not pay within a certain time, interest charges and so forth. Why can’t a system like that operate in the commercial world? I know it is different if you have a major contract with a major builder. There is market power there, I suppose, and pressure is applied. In normal circumstances, why can’t those sorts of rules apply?

Is there a similar situation in Queensland with the Office of Fair Trading? Is there a standard contract for work in the building industry? Do you have a similar thing? You have done renovations. Is there a standard contract in Victoria?

Mr Daynes—AS2142 is a standard contract.

CHAIR—Why doesn't that work?

Mr Howson—We are not signing them. They are not there; it is not public knowledge. People are not aware about signing those things. We do work for very large building companies and we do their contracts and all that sort of stuff and, if they do not want to pay, they do not pay. If they want to do a variation, you inform them that the contract variation forms part of the contract and that it must be paid on the same terms as the contract—but I am still waiting after 200 days for a variation.

Mrs Finlayson—I find the building industry really difficult. I hear this so much. When we started our business, probably about four years ago, the first thing we did was go to a solicitor and get terms and conditions set up. Those terms and conditions go to anybody we deal with. We are probably fortunate that we can do this, but we do not let anything out unless it is paid for first—like the TV set. We are not a retail store. Whether it is an Australian customer, a government customer or an overseas customer, those are our conditions. We are probably in a fortunate position in that we have a product that is in demand.

I do not mean to be rude or anything, but I think the building industry has to handle these issues. I do not see how government can save people from that financial position. Prevention is better than cure. I understand it probably snowballs—that you have them and they owe you so much money so you let them have more. Sooner or later, the 30, 60, 90 or 120 days have to come off the statements, especially now that the GST is in. I know it is a culture that has happened and that we are probably fortunate because we saw that happen and do it another way, but to allow credit to people who will never pay is not right. We make them sign a guarantee and sign over their home or everything they own. If we were ever to let credit out, they would have to sign a full guarantee.

Mr Czeperko—In our industry, as Les has said, the expectation is that it is their god-given right that be given credit. I agree with Les that there should be some regulation whereby you are forced to ensure there is some form of contingency; that credit is provided on the understanding that, within 14 days of you completing your project or there is a progress payment or whatever, you will get paid. Then we would not have situations where people are owed money for 120 or 200 days, you would not have cash flow situations, and you would be able to pay your GST on time and not have to worry about how you are going to find the money when GST payments are due.

CHAIR—Presumably, some of you would then not have to borrow working capital from the banks.

Mr Gerns—If the ACCC had some teeth it would be a lot better. Since it has gone from being a states controlled corporation to being federal controlled, all the guys in the office in Queen Street just sit there. I am on first-name terms with John Reganzano, the solicitor in

Brisbane, and I ring him up when anything happens. He said, 'Edwin, nothing will happen. The police won't go and get anyone unless it's a case of \$1 million where they've done something wrong.' It has to be over \$1 million; otherwise you will not get prosecution from the police for anything anyone has done.

Senator BARNETT—Do you mean the ACCC?

Mr Gerns—Yes; the ACCC. They need to be given people who have teeth. Those guys need to be like police warders. We had a couple at our place yesterday because we employ some released prisoners who have done their time. Normally, we only have one at a time; they might be murderers, armed bank robbers or something and, given that, these warders come out. But they are big guys; no-one will touch them because they are too big. They are the guys they need to go around and just talk to those guys.

CHAIR—Maybe there is a career path there, Edwin!

Mr Gerns—There is a career path there. That is what they need: for them to just go around and say, 'You can't do that; otherwise we will come and chew you on the backside, and you will not be tin plated.' They are making business completely constipated and, if it goes too far, business and small business will have a complete blockage.

Mr Daynes—There is a process for debt collection, and a lot of very good debt collection people are out there. If you go through the courts, and there is somebody who knows the process, it is not a long process. If you have a problem in the building industry where people do not pay and you bring in some sort of regulation, they just wind themselves up; they are smarties anyway. You are not going to make them pay if they do not want to pay.

Mr Howson—We find that the hardest part of it—and Nick touched on it with the GST payment—is that, if it is a GST month, they short pay you. Say I have a bill in for \$30,000 or \$40,000; they give me \$10,000. I say, 'What?' and they say, 'I didn't get paid by the developer.' I know perfectly well that my \$30,000 has gone on their GST payments and now I am short of mine. It just follows on. That is not right; that is not what this was supposed to be. The GST was not so much supposed to help us but it was supposed to be friendly to the small business man and all that sort of stuff; it has not been. Senator, if someone took \$30,000 out of your pay each month—sorry, you are probably not getting that much—you would miss it.

CHAIR—I would miss it, all right!

Mr Howson—Four times a year they do it to us. It is frustrating, and they should not be allowed to do it. It should be illegal to take out payments, especially on GST months, because they are doing exactly the same to us as they are doing to everybody else.

Mr Steadman—Now that we are onto taxation, I raise the problem we have with depreciation of equipment; is taxation an issue here, too? Most of the machines we need are around \$150,000 to \$250,000 per machine. For us to keep up with the rest of the world and be competitive, we need to upgrade those machines every several years. One problem that most people in our industry have had is with purchasing these machines; depreciation is over five years, and it is just not viable to keep replacing those things or get more. We tend to find that a

lot of our industry are buying second-hand ones that are already a few years old; we are always behind the eight ball there. For us, that is one problem with making the next leap to keep up with the rest of the world and their technology.

CHAIR—You traded off your accelerated depreciation for a lower company tax—that was part of the trade-off for lower company tax.

Senator BARNETT—Do you have a problem with the depreciation rates?

Mr Steadman—From what I have been told, in Europe, or in some countries overseas, they can write off a machine within 12 months.

CHAIR—Accelerated depreciation.

Mr Steadman—Yes; whereas over here we cannot.

CHAIR—No; it is lifetime depreciation.

Ms Ganley—I want to bring in another point that I find in my particular business, and it is very ‘niche’ in its way. This is the problem with competitiveness with the cash economy. It does relate to other businesses too. You mentioned house renovations before. I have made some inquiries of friends who are having their houses done and they say tradesmen do say to them, ‘Is this cash?’ I have a nanny business; we employ 140 young ladies at the moment. Some of them are in New South Wales and Victoria, and I have to say these are the hardest areas for us because they are used to being paid cash in hand. To educate them to real work which has insurance, WorkCover and superannuation is a real challenge for us. For our particular business, growing in the southern states has been really difficult because of the cash economy.

CHAIR—We have had a lot of anecdotal evidence in these round tables in this inquiry that the cash economy is booming. There are the examples that you have given about tradesmen saying, ‘We will only do it for cash in hand.’ The restaurant catering industry is a classic.

Mr Howson—It would not happen in the building industry!

Senator CONROY—He is trying to keep a straight face!

Mr Howson—I do not know what you are talking about!

CHAIR—It does not happen in the building industry, does it?

Mr Howson—Absolutely not.

Ms Ganley—It might be okay for the building industry but it is something I find unacceptable. We all have to pay our taxes. We have to run our businesses. When you are competing in your business, if you are employing people and somebody goes for your job and gets cash in hand for it, you cannot compete.

Mr Daynes—Les made that point about GST before and the penalties that occur. You have a choice of cash or accrual accounting. One of them suits your business, and if it does not suit your business at the time, the tax department has no problem with you changing. You can change to a system that is better suited to your business.

CHAIR—One of the issues that has come out in these round tables is that a lot of small business people have said to us effectively that, because there is so much compliance, it is easier to take the cash or pay the cash than go through the process of all the paperwork et cetera. A lot of them have actually said that they have been driven into operating illegally because that is the only effective way to operate and keep their businesses going. There is a lot of anecdotal evidence being given to us that there is a lot more going into the cash economy now, since the GST was introduced, than there was before. Yet it was supposed to eliminate a lot of the cash economy.

Mr Daynes—I have been to several round tables similar to this. There is a situation still where people, especially small business people, do not understand the GST. Prior to the GST coming in, Commerce Queensland—it was then the combined chambers of commerce—ran education programs. It was amazing how few businesses went to those education programs. There was this huge fear of GST. Anybody who went to the programs had no fear of it; they were comfortable, they adapted it to their business and most of them did not have any problems. I still think that a lot of people need educating. Something the government could do is run more educational programs for people who do not understand GST.

Mrs Finlayson—I am just wondering if you will ever stop the cash economy. For example, if we get our lawn mowed, we pay the fellow cash. If he does not declare that, who checks up? I am talking about in that private sector. In business, we would not dream of paying cash. We never employ anyone and pay with cash; it all goes through the books. We would not be game to do that because of the implications. But when it is privately, I do not see how that could ever really be stopped.

CHAIR—GST was supposed to stop it.

Senator BARNETT—I get the feeling that most of you around this table want your businesses to grow and succeed, and I compliment you on that. But I put it to you: do you think there is a large proportion of small businesses that actually do not want to grow? We have heard evidence throughout the hearings of where, for lifestyle reasons, particularly for home based businesses where mum or dad want to stay at home, businesses do not want to grow. Or, secondly—and this is the crux of the issue that I would like you to think about—they do not want to grow because the impediments to growth are too great, whether it be regulation, red tape, tax, GST or unfair dismissal.

Mr Willett—In the bakery industry I know so many ‘mum and dad’ small bakers who say, ‘I would love to put somebody on and give them a try but we tried that and we got burnt, with unfair dismissals and all the things that go with it.’ It is difficult to get people, there are the sickies, and people not turning up on time. They just say, ‘I would rather be by myself than try and expand, because the cost of expanding and bringing somebody else on is so great and the costs are so great it is just not worth the risk.’

Senator BARNETT—Does anyone else here have a similar view?

Mrs Finlayson—I think a lot of people do not have the ability to cope with business growth. They are very skilled at the product they have, but business growth does take them out of their comfort zone. I feel a lot of people just do not have the ability to cope with businesses and therefore they do not grow.

CHAIR—It comes back to the initial question I asked you all: do you think that small businesses generally are lacking in those basic business skills?

Mrs Finlayson—Yes, definitely. Most people are skilled in their own product, but a lot of people do not have business skills.

Mrs Jaques—I do not agree with that, I am afraid. I am one of 97 small businesses on Tamborine Mountain. We are all family run businesses for various reasons, and most of them you have mentioned here today. Lots of us are skilled in a lot of other areas and have degrees in business and commerce and all sorts of related areas. It is just the way the climate is today—unfair dismissals, a whole lot of things. Third-party liability insurance was the big thing for us because we are all tourism industry based; that has been the big stopper for us. We only have two minicoaches; we are not going any bigger. National Tour Company, as from 1 April, does not do winery tours anymore—they handed all their business over to us, basically, and said it was not worth the risks.

Senator BARNETT—Was this because of public liability insurance?

Mrs Jaques—Yes. There are areas other than lack of education that have to be looked at. In the tourism world, which is very different to the world of all you guys, we are fraught with a lot of problems as well. Sometimes I feel like we are an island rather than a mountain plateau up there. We are split down the middle: we are with the Gold Coast as well as the Beaudesert shire, and they are vastly different. Regional tourism is another can of worms. Opening up a small business of any description in a regional area of Australia is a whole other problem. I am here to tell you it that it costs a minimum of \$220,000 more to set up a business in a regional area than in a city area because the infrastructure is not there. The electricity: you cannot just plug it in. You cannot just turn on a tap for water: you have to supply it. You have to start from scratch—and that is before you do all the other things that you do when you are starting up a business.

SmartLicence is not all there either. When we first started out, we went to SmartLicence. Then we found out that anyone can get a commercial drivers licence and be on the road within six weeks. But then SmartLicence does not tell you about operators licences, accreditation for operators, and all the other things that are working around that. So there are a lot of areas that SmartLicence does not cover as well.

Mr Czeperko—Touching on the insurance side, which Judi has just raised, apart from Crisp Technologies I am also involved in a company called Aaqua Clarus, which specialises in domestic waste treatment systems. It is a new, innovative system and a new company. We have just been successful in raising half a million dollars through venture capitalists, but one of the biggest hurdles we are facing is public liability insurance. It has taken us five or six months just to get someone to quote us, let alone insure us. The only people who would look at the product

were Lloyd's of London. There is nothing peculiar about the product. It irrigates below the surface; it is not even above-surface irrigation. Lloyd's are willing to insure us, but on the proviso that the system does not pollute any of the environment. I hear so many stories from other business people that public liability insurance is killing them.

Mr Willett—We should not stop at public liability; we should talk about product liability. My product liability insurance premium is about \$20,000 a year and I have been told that, if we had a claim against us for something ridiculous, I should pay that out in cash instead of making a claim because, if I did not, the next year's premium could be trebled because of the claim. That has something to do with the major insurers now being worldwide and all the insurance companies now not insuring from their own finance but relying on Lloyd's of London et cetera for finance. There are now only three big companies and they maintain that Australia, because of the rules about public liability and product liability insurance, has become high risk. They are saying that you have no choice—you will either pay this or pay this—because the big three are taking over and there is no longer any competition. I do not know if that is true or not, but surely the Australian government should be thinking about that and doing something if we have to go overseas to get insurance and are now put on the black books.

CHAIR—On behalf of the committee, I thank all of you for giving up your time this afternoon to participate in this valuable round table discussion. What you have contributed is similar in many respects to what we have heard elsewhere, but it also has different elements and adds to the store of knowledge of the committee. Hopefully, when we bring down our recommendations in November, we will be able to address at least some of the issues that you have put on the table, if we do not address all of them.

Committee adjourned at 5.11 p.m.