



Ai Group submission

Small Business Victoria Discussion Paper

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Contacts:

Tim Piper
State Director – Victoria
Australian Industry Group
Phone: (03) 9867 0160

Phillip Chindamo
Chief Economist
Australian Industry Group
Phone: (03) 9867 0258

Introduction

The Australian Industry Group (Ai Group) welcomes the opportunity to provide a submission to the Victorian Government as part of Small Business Victoria's development of a Small Business Statement.¹ According to the Commonwealth Department of Innovation, Industry, Science and Research there were 495,000 small businesses operating in Victoria in 2008-09, representing 25.2% of the total number of small businesses in Australia.²

The Ai Group is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. Ai Group members operate small, medium and large businesses across these industries. The Ai Group also provides a range of services to businesses, including through Federal Government funding, the Enterprise Connect program, which offers comprehensive advice and support to eligible Australian small and medium-sized businesses to help them transform and reach their full potential.

This submission provides Ai Group's responses to the issues for discussion outlined in the Small Business Victoria Discussion Paper as well as some additional recommendations to help guide small business development and growth in Victoria.

Regulatory compliance and costs

The Ai Group has recently surveyed business CEOs regarding the impact of business regulation on their operations.³ The survey shows that despite all the efforts on regulatory reform by governments in recent years, the compliance burden associated with business regulation is rising, not falling. The average Australian business deals with 8 regulators in a given year and spends close to 4 per cent of their annual expenses complying with regulatory requirements. Around 20 per cent of these regulatory requirements are deemed by business to be unnecessary.

The survey results for Victoria indicate that Victorian businesses spend an average of 12 hours per week complying with regulatory requirements and spend 5.6 per cent of their annual expenses on outsourcing costs and fees and charges related to government regulation. While these results are better than the national average, close to 70 per cent of Australian businesses report that the direct costs of business regulation has increased over the past three years, and that they expect regulation to increase further over the next three years.

¹ The Australian Bureau of Statistics (ABS) defines a small business as an actively trading business with 0–19 employees. Medium-sized businesses have 20–199 employees, and a large business have 200 or more employees.

² Department of Innovation, Industry, Science and Research (2011), 'Key statistics: Australian small business', Canberra.

³ A copy of the survey report, *Business Regulation*, is available at www.aigroup.com.au/policy/reports/

Victoria has the highest proportion of businesses that reported to the Ai Group survey that business regulation is a barrier to trade (62 per cent of respondents). Occupational health and safety (OHS), workers compensation and other employee related regulations (such as superannuation) are the most time consuming areas of business regulation for Victorian businesses.

There are a number of actions the Victorian Government can take to address business regulatory compliance costs:

- Reduce the frequency of business regulatory reporting requirements to a minimum and establish reliable electronic and web-based regulatory reporting for businesses.
- Rationalise the number of regulatory agencies. The average Victorian business deals with up to eight regulatory authorities in any given year.
- Work with local government to reduce duplication of regulation across local government boundaries (planning regulations for example) and across State borders (for example the payroll tax harmonisation process through COAG is not yet operational).
- Review the Victorian Government programs related to reducing the regulatory burden, including ensuring methodologies for measuring the impacts of their regulatory reform initiatives are sound and more importantly, measure whether there has been a net decline in the regulatory burden being imposed on businesses. The Victorian Department of Treasury and Finance has produced some impressive monetary estimates of the regulatory burden reductions achieved but responses to the Ai Group survey on business regulation suggests these have not translated to tangible benefits 'on the ground' for many businesses, particularly small businesses.
- The Victorian Government also needs to consider how regulatory agencies interact with the business community with respect to regulatory changes and proposals. Consultation is crucial and should continue but governments need to invest in more efficient and less onerous consultation processes which do not impose an additional burden on businesses. Ensuring that smaller businesses have a say in regulatory decision making processes is important. Incorporating a 'consultation' regulation impact statement in the regulation making process as well as monitoring and reporting on the quality of consultation are worth considering at all levels of government.
- Victoria could lead the way in having the most efficient and best practice regulatory agencies, in turn reducing the burden on all businesses that interact with these agencies. There is some merit in the Australian National Audit Office Better Practice Guide to Administering Regulation being adopted by Victorian regulators at all levels of government and regulatory agencies undergoing regular 'health checks' to ensure these agencies are efficiently implementing regulations and not imposing an

additional and unnecessary burden on businesses. This regular review of the regulatory performance of the State's regulatory agencies could be conducted by the Victorian Competition and Efficiency Commission (VCEC).

- The State Government has announced details of a review of the *Climate Change Act 2010 (Victoria)* which has been triggered by the introduction of the Clean Energy legislation to the Federal Parliament. Ai Group considers that the State Government needs to take a fresh look at the whole of Victorian emissions reduction policy, including the Act, and other policies including the requirement for Environment and Resource Efficiency Plans (EREP).
- Separate state-based carbon emissions reduction targets have no place under a national target. To the extent that the Victorian legislated target has any teeth, it would undercut the efficiency of targets under the capped phase of the carbon price. Greenhouse issues in relation to emissions covered by national policy should not be duplicated under State planning, environmental approvals and licensing processes.
- The *Climate Change Act 2010 (Victoria)* specifically included greenhouse gas emissions in the matters that EPA Victoria considers in licensing and works approvals, and in recommendations on policy and regulations. In the immediate term, these broadly framed powers must be used in a cautious and responsible fashion, consistent with EPA practice in other areas and the emphasis that recent Victorian Governments have placed on minimising unnecessary regulatory burdens. In addition, the need for these powers should be reviewed given the likelihood that Australia will have a price on carbon from 1 July 2012.
- Businesses operating in Victoria report energy, emissions and other information under a range of State and Federal programs. Many with operations in multiple States face multiple inconsistent reporting regimes. Victoria should continue to lead efforts to reduce the burden of inconsistent reporting, particularly by advocating for, and facilitating, a single national online reporting portal.
- The Victorian Government's planning policy must provide certainty to industry. Companies must be encouraged to refurbish, redevelop and to develop greenfield sites, confident that they will be in an area and an environment that takes a positive approach to their proximity. The encroaching of residential land onto industrial areas must be discouraged to ensure that long-term investment can be undertaken and fully utilised over a considerable period. Furthermore, the Government must ensure that tracts of land are set aside for industry in general and manufacturing in particular. The planning process for this to occur is essential, especially taking account of the transportation options available now in and around metropolitan Melbourne. The use of road and rail infrastructure could be encouraged through appropriate planning.

Improving access to information and advice

The Ai Group survey on business regulation indicates that Victoria has the highest proportion of businesses that believe the (regulatory) information provided by the State government (agencies) is either difficult to find or not available. Victorian small businesses that do not necessarily have as many resources to gather information may be particularly impacted. These issues are broader than business regulation information and cover information regarding Victorian Government grants programs and services on offer to Victorian businesses.

There are a number of actions the Victorian Government can take to improve access to information and advice:

- Progress implementation of the previously announced initiative to establish one website/portal for State Government business related grants and advertise this facility widely through business associations and directly with businesses. The grants section of the website: www.business.vic.gov.au is not well known by Victorian businesses and falls well short of a comprehensive portal of all Victorian Government grants open to businesses.
- Provide a single website portal for all business regulatory information and announcements. This would reduce the transaction and search costs, particularly for small businesses.
- Review and enhance the degree of provision of regional business information services, especially in relation to the Department of Business and Innovation (DBI) business programs such as the Mobile Business Centre.

Small Business Victoria's programs and services

The Ai Group is generally supportive of the role and scope of Small Business Victoria's programs and services. The Ai Group's involvement in the Enterprise Connect program has provided an insight into the most pressing needs of businesses eligible for the program. These needs include:

- Business strategy.
- Human resources planning.
- Quality control and occupational health and safety.
- Marketing.

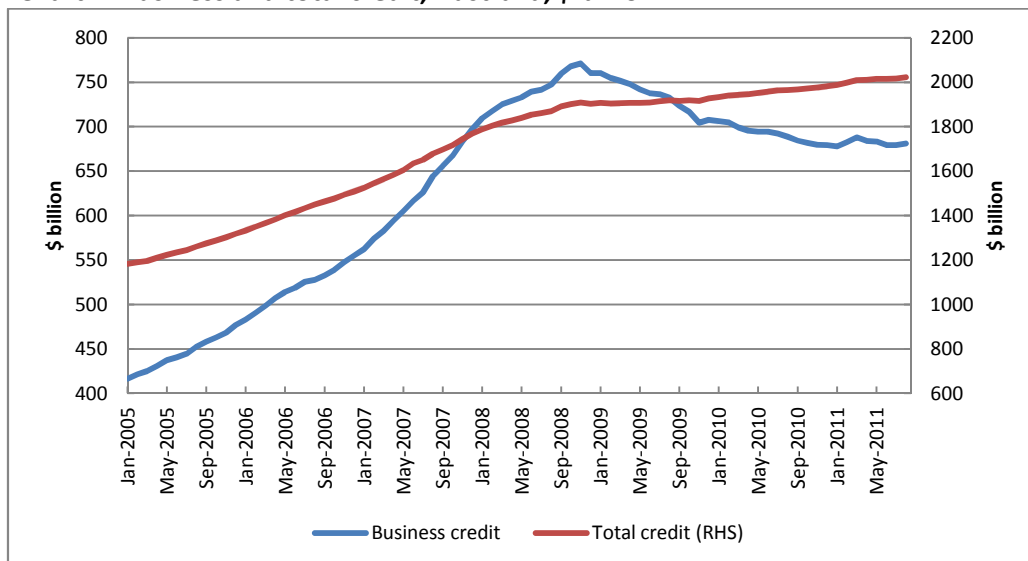
Ai Group acknowledges that these areas are being covered by Small Business Victoria's programs. Nonetheless the following are areas where current services can be augmented and improved:

- Extend funding for the Competitive Business Fund (CBF): Ai Group welcomes the extension of the CBF to small businesses of 20 or fewer employees which are now eligible to apply for these grants. Ai Group recommends that the Victorian Government extend the CBF beyond 2012 and also ensure there are considerably more funds available. Funding similar to the Industry Transition Fund which offered \$50 million over a two-year period would ensure more businesses gain an opportunity for support. As businesses are widely expected to continue to face challenging domestic and international economic conditions, additional funding from the Victorian Government would help promising businesses improve their competitiveness. The establishment of the CBF is a positive step in assisting businesses to expand their market opportunities, thus enabling new orders to be created.
- Further, Ai Group encourages the Victorian Government to ensure that the categories of funding under the CBF incorporate organisational innovation in the activities, in order to facilitate business model transformation in Victorian businesses.

Barriers to accessing finance

The global financial crisis (GFC) resulted in a tightening of finance in the form of business credit across the global domestic economies. Responses from Ai Group’s business advisors indicate that many member businesses have not fully recovered from the GFC and are surviving on a shorter term basis rather than focussing on long-term planning. Credit remains relatively costly and difficult to obtain for many businesses, particularly smaller businesses and those that have not benefitted directly from the resources boom. This is illustrated by Chart 1 which shows that over the last two years credit to business in Australia has declined from its pre-GFC peak, while total credit (reflecting credit for owner-occupied housing, investor housing and other personal credit) continues to grow.

Chart 1: Business and total credit, Australia, \$ billion



Source: Reserve Bank of Australia. Data is seasonally adjusted.

A recent survey of the manufacturing sector by the Australian Industry Group suggests that 23 per cent of business respondents from Victoria (approximately 43 respondents) were adversely impacted by difficulty accessing external finance over the last 3 years.⁴ Of the 43 respondents, 70 per cent (or 30 respondents) are smaller businesses with an annual turnover of \$15 million or less.

There are a number of actions the Victorian Government can take to improve access to external finance by small businesses:

- *Enhanced financial training for smaller businesses:* Governments at both the Commonwealth and State levels have various training programs to foster business growth. One example is the Enterprise Connect program sponsored by the Federal Government which provides business advisory services. Consultations with small businesses confirm this and other similar programs should be expanded to provide small businesses with training in cash flow management and broader accounting techniques. Provision of further and more widespread financial management mentoring is also essential.
- *Enhanced provision of information regarding finance options:* Previous Ai Group consultations with small businesses confirm there is a lack of information and understanding by some small businesses regarding financing options and accessing government sponsored grants programs. There is scope for the Victorian Government to work closely with Ai Group to facilitate greater information provision to small businesses.

Workforce and business management

A particular challenge in the midst of the re-emergence of skills shortages and workforce needs relates to workforce training. Evidence indicates that smaller businesses make less use of the training system across Australia. Moreover, smaller businesses have poorer apprentice completion rates than larger companies. Reasons for these outcomes for smaller businesses include:

- They may be less aware of training services available to meet their skill needs.
- Lack of time and resources to investigate options and a perception that ongoing bureaucratic demands and time needed to support apprentices will be onerous.
- Beliefs that training services may be too expensive or they may not be able to source highly specialised training.

The Victorian Government has recognised the special needs of smaller businesses in accessing the training and apprenticeship systems by implementing the Skills for Growth and the Apprenticeship Support Officer program. The Skills for Growth program funds free, independent skills advice to smaller businesses with fewer than 200 employees. The Skills

⁴ This survey data was collected in early 2011 as part of an upcoming Ai Group report into Australia's manufacturing sector.

for Growth program has proved popular with the program achieving higher than anticipated results. The Apprenticeship Support Officer program provides pastoral support for all young apprentices, aged 15 to 24, in the first year of their apprenticeship program.

There are a number of other actions the Victorian Government can take to improve small business access and participation in workforce:

- There is a significant opportunity to refocus and expand the provision of skilling advice through a specialist Manufacturing Skills for Growth program, a discrete component of the Skills for Growth program, which has been well supported by manufacturing businesses.
- The Victorian Government could consider re-introducing programs that have operated in the past that were designed to address the difficulties small businesses can have in identifying their skills needs and accessing suitable training. Examples are Industry Skills Advisers and Industry Liaison Officers. These programs no longer operate.
- Small Business Victoria needs to provide enhanced information dissemination services regarding the types of training and apprentices services and programs available to small businesses in Victoria, including regionally based businesses.
- Consideration of the *From Here to Best Practice* program implemented in New South Wales (NSW). This program between the NSW industry department and Enterprise Connect was designed to provide a comprehensive approach to staffing and leadership development in small to medium manufacturing organisations.

Disaster management

The Ai Group has experienced an increase in inquiries from small businesses about business continuity and succession planning. Some of these inquiries, in particular in Queensland, have been from businesses directly or indirectly affected by natural disasters. The Ai Group has supported affected members with fact sheets and briefing sessions.

The Ai Group supports Small Business Victoria playing an enhanced advisory role to help businesses have in place disaster planning and preparation, to understand insurance options and to access mentors and other Victorian Government support.

More broadly the Ai Group is concerned that the new property-based levy to fund Victoria's fire services, which will replace the existing Fire Services Levy (FSL), does not impose an unnecessary and onerous cost burden on businesses, particularly small businesses in regional Victoria. The Ai Group will be making a separate submission to the Victorian Government's consultation process regarding Victorian fire services.

Government purchasing policy

The Ai Group believes Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia. There are, however, a number of barriers and distortions that frustrate and impede the full and fair participation of Australian suppliers. These barriers include, for example, an undue emphasis on upfront costs rather than whole of life costs in public sector procurement and an uneven weighting given to conformity with standards.

The Ai Group recommends government agencies and major contractors implement an approach that shows a commitment to the following five procurement principles:

1. *Value for Money*: Value for money looks beyond “least cost” and brings cost-benefit approach that considers whole servicing, quality and ongoing supplier relationships.

2. *Clarity, Transparency and Improvement of Processes*: procurement processes should be clear and transparent and be subject to ongoing improvement to reduce costs of tendering and access for domestic suppliers, particularly small and medium sized enterprises.

3. *Full and Fair Access*: Procurement processes should ensure local suppliers have full and fair access to supply opportunities under direct government contracts and with prime contractors for major projects. This includes consistency in relation to conformity with standards and no preferential treatment of offshore suppliers.

4. *Full Opportunities for Local Suppliers*: Australian based suppliers should have full opportunity to compete for the provision of goods and services under government contracts both directly and indirectly through supply to prime contractors. For major projects, prime contractors and licence holders should ensure that local suppliers have full and fair access to sub-contracting and supply arrangements.

5. *Supporting Industry through Effective Planning and Communication*: Large government purchasing activities and major project plans should be developed in a transparent way to ensure local industry is able to invest sufficiently to participate in major tenders.

Resolving business disputes

The Ai Group supports the ongoing role of the Victorian Small Business Commissioner to provide small businesses with low-cost alternative dispute resolution procedures.

Online business management

The Ai Group believes that utilisation of online web presence for small business coupled with the rollout of national infrastructure including the National Broadband Network (NBN) and fourth-generation wireless services provides a critical platform for business to harness productivity improvements, and turn new ideas into innovative products and services.

The Ai Group proposes the future delivery of a coordinated and consistent small business program which is founded on achievement of net benefits to the business community in their efforts to increase their presence via traditional linear website services as well as social networking avenues for business purposes.

The Ai Group acknowledges there is a lack of well-integrated and up-to-date information on the potential economic and business benefits of online web presence for small business. The broader national and state level productivity agendas have had little to no substantive focus on utilisation of either linear website services or the more complex social networking strategies.

Victorian small businesses require access to a program that provides a substantial opportunity for businesses to gain the advice, expertise and ongoing confidence to invest in new products and services that may be delivered online.

The potential program should not purely be a macroeconomic examination of businesses having a web site: it should be about finding, describing and seizing opportunities that ubiquitous broadband presents for small business to raise productivity and boost the bottom line.

The key aspects of any business are asset management, operational management, revenue generation and business model innovation. The Ai Group envisages that beyond just being online and having a web site, performance measures can be incorporated that benchmark the improvement in key aspects of the business, particularly business model innovation.

With regard to social media, Ai Group has been experiencing a higher demand for training in this area from businesses wishing to build their marketing strategies.

Supporting exporters

Given the current challenging environment for exporters given the high exchange rate, difficulties in obtaining credit and uncertainty regarding global economic growth, particularly from Europe, the Victorian Government should proactively assist exporters by:

- Reconsidering the freight infrastructure charge at the Port of Melbourne. This levy effectively makes businesses less competitive in the global market. Furthermore, the levy disadvantages some large businesses because they tend to have heavier loads and can use only individual containers, rather than dual containers on the one vehicle. The cost to some companies which utilise the Port for significant export container traffic is extraordinarily significant and Government must take account of the impact on exporting opportunities.
- Fund more overseas trade missions for businesses, particularly smaller businesses that want to expand into overseas markets, to participate and to facilitate co-funding exporters' businesses trips overseas to establish and/or increase contacts with overseas business partners. Such networks would help to increase the chances of

smaller Victorian businesses being able to successfully break into new overseas markets. The Victorian Government should develop an export target and a process to achieve it. The Ai Group stresses that the Victorian Government could play a proactive role in leading businesses to overseas markets.

- Ensure that trade missions are accessible to small and medium enterprises (SMEs). We understand the Department of Business and Innovation (DBI) has recently changed the policy of the minimum number of participants on a trade mission to 10, with some trade missions with a Minister including 100 – 200 businesses. This has a direct negative impact on SMEs. Large missions that consist of mainly high level networking events may be suitable for large businesses that already have a number of contacts in market and are simply looking for the imprimatur of government to support existing business; however they are not suitable for SMEs. SMEs use trade missions as a low cost entry strategy for new markets. They need individual appointment programs with local companies that have the potential to be their local partner. Smaller missions, involving 6 – 8 businesses are more suitable for SMEs and are more likely to produce real benefits.
- The Victorian food and beverage manufacturing industry includes many smaller and regionally based manufacturers. The industry has performed well in recent times, but they face increasingly challenging business conditions in light of the strong Australian dollar, cheaper import substitutes and slowing domestic demand. The Ai Group urges the Victorian Government to do more to assist smaller businesses in the Victorian food and beverage industry. This is a promising area for the Victorian manufacturing sector, especially given the high food and safety standards in Victoria and throughout Australia. Victoria has a competitive advantage in this area, and Victorian exports of food and beverage products could be boosted with more assistance from the Victorian Government.
- Rebalance export support programs to provide effective support for small businesses that develop and export intellectual property and services. The ongoing “information revolution” and the development of the National Broadband Network provide the context in which Victoria is already developing world-leading knowledge, services and technologies that do not fit comfortably in the established “product” oriented export facilitation programs. A vibrant, export oriented industry focused on advancing and exploiting the information revolution will become a major earner and a major attractor of high value individuals to Victoria.

Supporting franchisees

The Franchising Code of Conduct under Commonwealth law regulates the conduct of participants in franchising towards each other and to ensure that they are sufficiently informed about a franchise before entering into it. Additionally, the code also provides a cost-effective dispute resolution scheme for franchisees and franchisors. Within this

regulatory framework, recent Small Business Victoria initiatives to provide co-funding for mentoring of franchisees is supported by the Ai Group.

Best practice services for small business

In 1998 the Productivity Commission undertook a study on design principles and strategies for small business programs and regulations.⁵ The Ai Group suggests the Victorian Government consider these principles in promoting best practice programs and services for small business. The Ai Group recommends the following principles be adopted by the Victorian Government:

- Small business programs and services should:
 - Be relatively simple, with easy application procedures.
 - Not rely on detailed and onerous information about individual firms.
 - Include design features which can increase additionality (that is, new and additional economic activity that would not otherwise have occurred).
 - Feature good dissemination of information about the program and its eligibility criteria.
- Government regulations should involve:
 - Explicitly accounting for the impacts of regulatory and tax measures on small business, including consultation with affected parties.
 - Flexible delivery of regulations to small business, for example, through less frequent or simpler reporting requirements.
 - Collecting better information about the varying impacts of regulation on different firms to discern the cost to small firms of meeting regulatory requirements.
 - Monitor and identify best and worst practice regulatory delivery, including an improvement in information provided by regulatory agencies to businesses about their compliance obligations and possibly regulatory tiering — providing small business with more lenient regulatory treatment or exemptions.

Conclusion

Small businesses are an important driver of economic activity and growth in Victoria's economy. Yet small businesses often do not have the resources and scope to address challenges facing all businesses. This provides a role for the Victorian Government to provide support and facilitate growth. This submission has outlined the Ai Group priorities in response to the Small Business Victoria discussion paper. The Ai Group look forward to contributing to the development of the eventual Small Business Statement.

⁵ Productivity Commission (1998), 'Design principles for small business programs and regulations: staff research paper', August.