



Small business. Big opportunities.

VECCI Small Business Taskforce Report



VECCI's small business priorities and what governments must do to keep small business competitive

Jobs	Skills	Costs	Exports
<ul style="list-style-type: none">> Enable small businesses to employ more people by reforming penalty pay rate structures for small business employers.> Simplify existing workplace relations legislation applying to small business, including the content of modern awards.> Include 'minimum engagement' as an award matter that can be varied under the individual flexibility arrangements (IFA) in all awards.	<ul style="list-style-type: none">> Offer small business a one-year holiday from payroll tax for each new employment placement of a young person between the ages of 15 to 25 engaged in their first full time job.> Reintroduce payroll tax exemptions for eligible new trainees and apprentices, as currently exist in NSW, QLD and WA.> Redirect \$20 million of Victorian Training Guarantee funding to boost apprenticeships/ traineeships in hospitality, business administration, retail and tourism.	<ul style="list-style-type: none">> Raise the payroll tax free threshold from \$550,000 to \$850,000. Do not introduce any new taxes or increase existing taxes on small business.> Commit to the progressive reduction in WorkCover premiums.> Review and rationalise the number of business regulators. Reinstate the Office of the Red Tape Commissioner and strengthen the Commissioner's enforcement powers.	<ul style="list-style-type: none">> Commit \$75 million in funding to secure Victoria's International Engagement Strategy for a further four years, with priority given to facilitating SME exports.> Develop a strategy to actively leverage opportunities created by Free Trade Agreements and assist Victorian SMEs to take advantage of these.> Commit to and deliver freight transport infrastructure upgrades in regional Victoria to enable small businesses, particularly in agriculture and manufacturing, to leverage export opportunities and reduce costs.

Innovation

- > Reduce the company tax rate to 10 per cent on SME profits earned from their patents developed in Australia.
- > Aim for a 30 per cent increase in science, technology, engineering and maths (STEM) graduates over the next decade.
- > Expand the Victorian Government's Innovation Voucher Program to support ICT based R&D activities that help SME service sector businesses develop new and innovative value offerings.

Finance

- > Provide tailored training for small business on how to produce stronger credit applications.
- > Implement the extension of unfair contract term protections to small business, as proposed by the Commonwealth Government.
- > Consolidate existing federal, state and local government information on available small business grants and financial support under a single electronic point of entry.

Procurement

- > Require governments to publish how successful each major department and agency is at meeting the fair payment provision for small businesses.
Automatically add late payment fees to invoices not paid on time, removing the onus on small business to invoke penalty payment clauses.
- > Encourage greater opportunities for regional small businesses by encouraging VIPPP Plans to outline the level of value-add activities that will be sourced from regional areas.
- > For all government procurement that is not required to go to open tender, require at least one quote to be sought from a small-to-medium sized enterprise.

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Introduction



Mark Stone
VECCI Chief Executive

We seek a commitment from governments to make small business a priority by taking up the recommendations contained in our agenda. Doing so will give small business the best chance to grow their workforces, continue to innovate and achieve further success at home and abroad.

Small business is important business. Though they may be small in size, small businesses are big on ideas, entrepreneurship and innovation. Taken together, they are major employers and key drivers of economic activity, investment and trade.

Small businesses are not just big businesses on a smaller scale. The nature of their operations and the way they interact with governments, consumers and other businesses means they face unique challenges in growing their operations and workforces.

These challenges need to be understood by governments at all levels.

As Victoria's largest and most influential business organisation representing the

interests of small business across the state, VECCI has identified seven priority areas governments must focus on to ensure small business is even more productive and competitive:

1. Jobs – addressing critical workplace relations constraints that prevent small businesses from employing more people.
2. Skills – addressing small business skills requirements.
3. Costs – lowering small business direct and indirect costs.
4. Exports – getting more small businesses into exporting.
5. Innovation – encouraging small business innovation.

6. Finance – improving small business access to competitively priced finance.
7. Procurement – improving small business access to government purchasing.

These priorities and their recommendations were developed by small business through the work of VECCI's Small Business Policy Taskforce.

I take this opportunity to thank Taskforce members who shared their time, expertise and experience in coming together to identify issues, opportunities and ideas that will drive small business growth and success in 2015 and beyond.

A key starting point for policy makers is to determine an agreed, clear and consistently used definition of ‘small business’.

As the table below shows, there is no consistently used or precise definition of a small business. Common definitions categorise businesses based on: their number of employees, as used by Fair Work Australia (FWA) and in most surveys of small businesses (ABS); or annual revenue, as used by the Australian Taxation Office (ATO).

METRIC	THRESHOLD	INSTITUTION	PURPOSE
Employees	<15	FWA	Unfair Dismissal laws
	<20	ABS	Business surveys
		ACCI and Sensis	Business surveys
		RBA	Business liaison
	<50	ASIC	Annual financial reports
Legal Structure	Unincorporated	RBA	Analysis of financial conditions
Revenue	<\$2 million	ATO	Taxation
	<\$50 million	APRA	Prudential supervision
Individual loan size	<\$1 million	APRA	Prudential supervision
	<\$2 million	RBA	Analysis of financial conditions

Source:
Reserve Bank of
Australia, Queensland
Chamber of Commerce
& Industry.

Small businesses are different to larger businesses.

Small businesses:

- > Can be disproportionately affected by the costs of regulatory decisions and unnecessary red tape.
- > Have fewer resources – be it time, information, money or staff – at their disposal to cope with their regulatory obligations.
- > Are very diverse and cut across all sectors of the economy, up and down the supply chain.

98% of Victorian businesses are small.



Non-employed	1 – 19 employees	20 – 199 employees	200+ employees
328,452	196,897	12,479	939

Source: ABS, Counts of Australian Businesses, Including Entries and Exits, 8165.0, June 2014



one

Help small businesses employ more
people by addressing critical
workplace relations constraints

Business competitiveness in the modern, global marketplace requires a high level of labour market adaptability and flexibility.

In today's economy, small business needs more flexibility to adjust their labour supply and productivity to compete in global supply chains. Firms operating in key service industries like retail, tourism and hospitality must be able to respond to peaks and troughs in demand.

Inflexible workplace relations rules, which operate on a 'one size fits all' basis or a 9 am to 5 pm, Monday to Friday paradigm, do not reflect the evolution of business and specific needs of firms operating in the services sector. They do not reflect the needs and capacities of the majority of Australian employers, including small business.

They also do not reflect the diverse needs and preferences of job seekers and employees who also require more flexibility in not only the type of work, but the hours of work.

It is vital that policy-makers understand that good labour regulation must work across a range of diverse business arrangements and economic circumstances.

Inflexible labour rules do not allow firms to structure their business operations in the most efficient and productive manner. Such rules add to cost and economic inefficiency, and contribute to less-than-optimum performance of the labour market and the economy.

Without major reform of the Fair Work Act 2009; both in its operation and interpretation, the system will continue to act as a dampener on the capacity of firms to expand and create employment opportunities.

VECCI considers key aspects of the workplace relations system must be subject to urgent reform if Australia is to maintain workplace flexibility, increase productivity, grow employment and harness the opportunities presented in the Asian Century.

Recognising that the operation of the national workplace relations system is governed by federal laws, our reform recommendations in this section are principally directed at the Commonwealth Government.

- > Enable small businesses to employ more people by reforming penalty pay rate structures for small business employers. By increasing direct business costs, penalty rates have a significant negative effect on business employment and turnover. Penalty rates can be 100 per cent of normal rates on Sundays and 150 percent on public holidays.
- > As an alternative, introduce flexible weekend penalty rates, whereby current penalty rates paid on Saturdays and Sundays would instead be paid on any sixth or seventh day of the week worked by an employee.
This change recognises the fact that we live in a more flexible society where the preferred days of rest are no longer necessarily Saturday or Sunday. This change would retain current penalty rates and continue to provide a weekend guarantee for each employee (as an employer would have to pay penalty rates to an employee who works six or seven days per week), while giving businesses the flexibility to structure their employment arrangements such that they can open on Saturdays and Sundays without incurring penalty rates.
- > Change the definition of “small business employer” in the Fair Work Act 2009 to refer to “fewer than 20 Full Time Equivalent (FTE) employees” rather than 15 as is currently the case. This will expand the coverage of the clauses relating to minimum engagement period (s 383), Small Business Fair Dismissal Code (s 385, 338) and Exemption or Redundancy Pay (s 121) (1b).
- > Simplify existing workplace relations legislation applying to small business, without removing the intent of regulations to provide safe, fair, productive and successful workplaces. Small business currently needs to comply with numerous substantial pieces of legislation (for example, taxation, superannuation, OHS, equal opportunity and corporations law) that can act as a major disincentive to growth, employment and investment.
- > Simplify and streamline the content of modern awards that the Australian Government has acknowledged “can be particularly confusing for small business operators and individual employees who generally do not have specialist workplace relations experience”. The objective must be to increase modern award certainty (businesses need to be confident in applying information), efficiency (businesses need to spend less time locating relevant award sections), ease (less legal jargon) and improve the level of support available.
- > Include ‘minimum engagement’ as an award matter that can be varied under the individual flexibility arrangements (IFA) in all awards. This would allow employees and employers to decide the most appropriate minimum hours of engagement per day. Currently IFAs allow variations to overtime rates, penalty rates, allowances, leave loading and working hours, but not ‘minimum engagement’.
- > Ensure the Fair Work Amendment Bill 2014 gives the Fair Work Commission the power to dismiss claims where an applicant fails to attend a conference or hearing. Such a measure would help reduce the burden of unfair dismissal claims being time consuming and expensive for small business. The reform proposal should also apply to conciliations.

Penalty rates have their origins in a labour market quite different to that of much of the Australian labour market today ... The Australian economy today is dominated by the service sector, part-time work, casual work, working women and flexibility are the norm for many.

Professor Phil Lewis,
Director, Centre for Labour Market Research, University of Canberra





two

Address small business skills
requirements

High quality workforce and management skills are crucial to small business success.

Unfortunately, many small business owners face a number of challenges in attempting to strengthen and grow the skills base of their business. These include difficulties attracting and retaining quality candidates to fill employment, traineeship or apprenticeship vacancies. Common problems relate to core skill competencies, a lack of work readiness and poor underlying literacy and numeracy standards.

These concerns have been compounded by the recent removal of state government training funding for students engaged in part-time employment. Also of concern is the reduction in funding rates for lower level qualifications that provide literacy, numeracy and work preparation skills for many young people in industries like retail, hospitality, tourism and administration.

VECCI is also concerned by complaints from employers about the declining quality of training delivery across industry sectors. Early indicators from the Commonwealth VET Reform Taskforce Review are that many employers and stakeholders are concerned that providers are not employer-driven.

There needs to be a stronger focus on training provider delivery and accountability with a supportive audit compliance regime that leads to improved outcomes. All stakeholders must have greater confidence in the training system.

Industries undergoing structural adjustment need access to an education and training system that supports retraining, reskilling and redeployment.

Service sector industries like retail, hospitality and tourism provide important entry level employment opportunities that help launch careers for many young Victorians. For these industries, it is essential that links to post school training are strong and the government lifts investment in service sector training.

Emerging high growth industries like advanced manufacturing require an education and training system that fosters innovation and leadership.

It is no less important that governments continue to work with industry to address generalist capability gaps in the knowledge and experience of individuals establishing or running a business.

These can include information and ability gaps relating to research and development, quality management, sales and marketing, supply, distribution and finance, personnel, and business planning. The objective must be not only to improve enterprise effectiveness and reduce the business failure rate, but spur greater innovation and entrepreneurship among small business.


What governments must do

- > Establish a new low cost Business Foundations short course program – delivered by industry – that enables SME start-ups to acquaint themselves with the fundamental prerequisites needed to establish and operate a small business, ranging from basic sales and marketing, HR and workplace OHS obligations, basic accounting and cash-flow, tax management, credit management, customer service, meeting government requirements and business planning. Successful completion of the course would entitle course participants to a discount on the costs associated with registering a business name and meeting other government licence and registration requirements relevant to starting a business.
- > Where small start-up businesses become a member of a local chamber of commerce, professional or industry association, extend a 50 per cent discount on the costs associated with registering a business name.
- > Assess the scope to transfer the funding and administration of Victorian government (Small Business Victoria) workshops, seminars, festival events and/or mentoring services to the private sector and set an SME participation rate target of 15 per cent by 2017. Less than 6 per cent of Victorian small businesses currently access these services.



37.5%

Suggested increase in funding for Victorian Government's Employment Start Up for Business Program.



Entrepreneurship involves more than business start-up... it also includes the development of skills to grow a business, together with the personal competencies to make it a success.

**Entrepreneurship Skills for Growth-Orientated Businesses,
Professor Thomas M. Cooney, Dublin Institute of Technology**

\$1,455

Annual potential saving in tax to a business for an apprentice earning \$30,000 if payroll tax exemptions for eligible employees are reintroduced.

<6%

Percentage of Victorian businesses that access government workshops, seminars, festival events and/or mentoring services.

- > Conduct a thorough mapping and analysis of all SME support programs provided by the Victorian government and its agencies to minimise duplication and inefficiencies in the delivery of support programs. In addition to participant feedback as a key measure of program effectiveness, establish more objective performance indicators to assess performance, e.g., net gain in the number of small business start-ups, employment and trade.
- > Ensure the financial value of government grants to small business exceeds the costs associated with applying for, administering and reporting on grant outcomes by a minimum ratio of 3:1.
- > Help address rising youth unemployment by offering small business a one-year holiday from payroll tax for each new employment placement of a young person between the ages of 15 to 25 engaged in their first full time job (working at least 30 hours per week). A discount on WorkCover premiums applicable to each new placement should also be considered.
- > Help small business employers and strengthen youth employment pathways by redirecting \$20 million of Victorian Training Guarantee funding to boost apprenticeships/traineeships in hospitality, business administration, retail and tourism.
- > Reintroduce payroll tax exemptions for eligible new trainees and apprentices, as currently exist in NSW, QLD and WA.

Under this proposal, each eligible employee a business has on a traineeship or apprenticeship in Victoria could potentially exclude that employee's wage from payroll tax (4.85 per cent) for the full duration of the training. Example: For an apprentice earning \$30,000, and the payroll tax in Victoria of 4.85 per cent, a business could save \$1,455 in payroll tax each year.

The Commonwealth Department of Employment Jobs 2014 report shows these sectors are expected to account for up to six per cent of employment over the next four years so it is vital that training is responsive to the needs of the service sector, as well as the goods producing sector.

- > Expand funding for the Victorian Government's Employment Start Up for Business Program to \$12 million, from its current level of \$7.5 million.

The Employment Start Up for Business program offers eligible employers a grant of up to \$4,000 on the initial employment of a young person between the ages of 15 to 25 that has been employed for a 16 week period and has undertaken, or is enrolled in, accredited training to the value of at least \$800 that is appropriate to the workplace and the position description.

- > Support the increased uptake of work experience, internships and vocational placements in small and medium sized businesses by clarifying how the Fair Work Act applies to these arrangements. Current guidelines issued by the Fair Work Ombudsman lack the precision needed to engender confidence and conformance among all stakeholders.

The image features three stacks of gold coins on a light-colored, textured background. One stack is tall and positioned towards the back right, while two shorter stacks are in the foreground, one to the left and one to the right of the base of the taller stack. The word 'three' is written in a large, dark blue, lowercase serif font, centered over the stacks of coins.

three

Lower small business direct
and indirect costs

Victoria's regulatory regime and competitive tax system play a critical role in underpinning small business growth.

The operation of Victoria's regulatory regime generally and the competitiveness of the state's tax system in particular, play a critical role in underpinning small business growth, confidence and investment. For this reason, VECCI has been an active and consistent advocate of the need for reforms that lower both direct and indirect business costs.

DIRECT COSTS – BUSINESS TAXATION

VECCI welcomed the reduction in the payroll tax rate from 4.9 per cent to 4.85 per cent announced in the 2014 state budget. This reduction comes at an important time for many businesses and provides an estimated \$234 million in savings over 4 years. VECCI's advocacy was also influential in securing the average 2 per cent reduction in WorkCover premiums that came into effect from 1 July 2014.

Recognising that the competitive position of Victorian business has come under intense pressure from a range of cost imposts that are unlikely to subside in the future, VECCI will continue to actively advocate for business tax relief. Our Taking Care of Business agenda in the lead up to the 2014 state election calls for an increase in the payroll tax threshold to \$850,000 in order to help keep Victorian small business competitive.

INDIRECT COSTS - REGULATION REFORM

Small business recognises that well-designed regulation can provide benefits for business by improving economic stability, providing operational certainty and increasing consumer confidence.

However, because regulations affect all facets of business including inputs, prices, output and volumes, unnecessary, complex and poorly designed regulations also constrain the ability of business to provide the best product or service at the lowest cost.

The effects of numerous changes to regulations - or the prospect of changes - can also be damaging, leading to lost confidence, lost markets and a disincentive for risk-taking, productivity and entrepreneurship.

VECCI has welcomed the commitment by successive state governments to set red tape reduction targets and has worked with its members and the former Red Tape Commissioner to identify examples of nuisance red tape and opportunities to reform or repeal regulations that unnecessarily impede business competitiveness.

\$234^M

Savings over 4 years
resulting from the
reduction in the payroll tax
rate from 4.9% to 4.85%

10% → 9%

Suggested reduction in rate of
duty on general insurance, to match
rates in NSW and QLD

What governments must do

DIRECT COSTS

- > Assist SMEs by raising the payroll tax free threshold from \$550,000 to \$850,000. Do not introduce any new taxes or increase existing taxes on small business.
- > Freeze for 24 months the indexation of all fees, fines and charges set by regulation.
- > Commit to the progressive reduction in WorkCover premiums in order to strengthen Victoria's competitiveness and reduce costs for employers.
- > Reduce the differential between the Fire Services Property Levy charged on residential and commercial/industrial properties by at least 25 per cent.

Currently commercial and industrial property owners pay double the fixed charge (\$205 versus \$102) and a variable charge up to 13 times that of residential properties (85.9 cents per \$1000 of capital improved value for metropolitan industrial properties versus 6.5 cents for metropolitan residential properties). This results in businesses making a disproportionate contribution to funding fire services and cross subsidising households.

- > Reduce the rate of duty on general insurance from 10 per cent of premiums to 9 per cent to match rates in NSW and Queensland.

This would provide a saving to Victorians of around \$100 million per annum. A reduction would provide direct relief to businesses and signal a transition towards broader reform of state taxes consistent with the findings of the Henry Tax Review.

INDIRECT COSTS

- > Review and rationalise the number of business regulators.
- > Streamline how small businesses interface with government. Providing information to and receiving inspections from multiple business regulators can be time consuming and costly. Getting agencies and organisations to share more information and streamline how they interface with small business needs to be a priority.
- > Reinstate the Office of the Red Tape Commissioner and strengthen the Commissioner's enforcement powers.

- > Increase the resourcing of the Office of the Red Tape Commissioner to support a deeper and wider regulation reform agenda and accelerate the implementation of reform proposals. Establish an SME reference group to develop and advise on new reform proposals specifically targeted at addressing burdens most relevant to small business.
- > Undertake targeted reviews into the following regulatory 'hot spots':
 - > Waste Management Policy (Used Packaging Materials).
 - > Vocational education and training regulation.
 - > Administration of state taxes and charges.
 - > Local government planning.
- > Commit to a zero net increase in regulatory requirements by 2018. Raise the existing 25 per cent regulatory reform target to a 30 per cent reduction in the level of red tape by 2016, ensuring at least half of the identified reforms directly benefit small business.
- > Accelerate the review of the Occupational Health and Safety Regulations 2007 which sunset in 2017 and set a target for a 15 per cent reduction in the regulatory burden. Such a reform could consolidate Victoria's position as having the safest workplaces in Australia at the lowest average cost to business.
- > Strengthen the use by government departments and agencies of Regulatory Impact Statements (RIS) to assess the impacts on small business of proposals for new, sunseting or amending regulations.





Taxes, charges and red tape are
major constraints on small business

The Top 10 constraints on small business:

- 1. Business Taxes and Government Charges**
- 2. Insufficient Demand**
- 3. Wage Costs**
- 4. Non-Wage Labour Costs**
- 5. Import Competition**
- 6. Federal Government Regulations**
- 7. State Government Regulations**
- 8. Availability of Suitably Qualified Employees**
- 9. Charges by Lending Institutions**
- 10. Insufficient Retained Earnings**

Source: ACCI Small Business Survey, August 2014



four

Get more small businesses
into exporting

Victoria's export performance has been a key feature of the state's economic performance over the past three years.

As VECCI's Taking Care of Business 2014 state election business agenda notes, Victoria's export performance has been a key feature of the state's economic performance over the past three years.

Victorian businesses, large and small, have worked hard to raise their competitiveness by developing new processes, products and markets.

Many Victorian companies are leveraging their expertise in agribusiness production, logistics, marketing and investment to help position the state as a food bowl to Asia.

In the advanced manufacturing sector, innovation is playing an increasingly important role in helping drive new commercial opportunities at home and abroad. Exciting new R&D capabilities are being commercialised in advanced materials manufacturing, such as carbon fibre.

Victoria's tourism and international education performance has continued to strengthen and with further potential to grow, governments must support these important sectors.

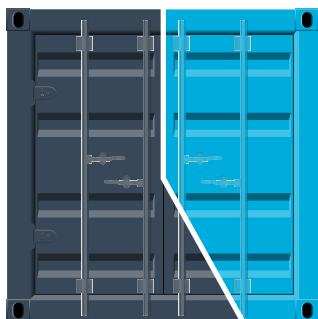
New export prospects are also emerging in specialised areas like health services where the growing affluence of our neighbours and ageing populations are creating increased demand.

Similarly, the knowledge and experience of our business, professional and technical services sector is being increasingly sought after internationally.

Nationally, services exports have grown by an annual average of four per cent in the past decade. Australia exported \$52.4 billion of services in 2012-13. Victoria's share was \$12.75 billion or just over 24 per cent.

The expanding network of Free Trade Agreements (FTAs) Australia has either entered into or is currently negotiating will play an important role in helping Australian exporters access new markets and expand trade in existing markets.

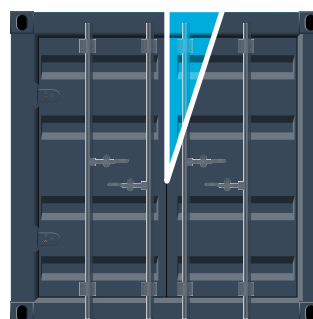
However, the fact remains that Australian small and medium sized business exports only account for around 5 per cent of the value of total goods exports and recent VECCI research shows that only one in five surveyed Victorian firms are actively planning to take advantage of the opportunities available in the Asia Century over the next 12 months.



42%

Percentage of Australian exporters that are SMEs

Source: DFAT



5%

Percentage contribution to total value of Australian exports by SMEs

Feedback from VECCI SME members has indicated that a number of barriers exist to strengthening their involvement in international trade. These include:

- > Lack of an export business strategy (and supporting market intelligence) and relevant skills at the firm level.
- > Confusion or lack of information about the export support programs available at state and federal government levels.
- > A lack of finance to support the scaling up of operations to meet increased export demand.
- > High production and transportation costs.

While the private sector needs to take the lead in driving new export growth, it is clear that governments can also do more to reduce the cost, information, skills and regulatory barriers that prevent small business from leveraging new commercial opportunities in the international marketplace.

What governments must do:

- > Commit \$75 million in funding to secure Victoria's International Engagement Strategy for a further four years, with a focus on facilitating SME goods and services exports.
- > Allocate \$2 million to create a *Small Business: A World of Opportunities* advertising and information campaign that is designed to address the lack of awareness among small businesses of export opportunities and direct them to programs and support specifically targeted at first time exporters.

This lack of awareness was demonstrated in the September 2014 VECCI-Bank of Melbourne Business Trends and Prospects Survey where 66 per cent of respondents indicated that their business was not planning to take advantage of opportunities available in the Asian Century (e.g. rising incomes, increased spending and changing consumer tastes in Asia).

- > Relatedly, develop a strategy to actively leverage opportunities created by Free Trade Agreements and assist Victorian SMEs to take advantage of these.
- > Fund a new \$5 million Investment Ready program, delivered by industry, to identify and support Victorian SMEs seeking inward investment as part of their trade expansion strategies. The program would identify specific projects and proposals, assist firms to develop and present proposals/information in a way that is likely to attract foreign investors, and help facilitate deal flow.
- > Commit to and deliver freight transport infrastructure upgrades in regional Victoria to enable small businesses, particularly in agriculture and manufacturing, to leverage export opportunities and reduce costs.

A number of regulatory barriers exist to strengthening involvement of SMEs in international trade.

\$5M

To fund an Investment Ready program to identify specific projects and proposals, assist firms to attract foreign investors, and facilitate deal flow.

\$75M

To secure Victoria's International Engagement Strategy for a further four years.

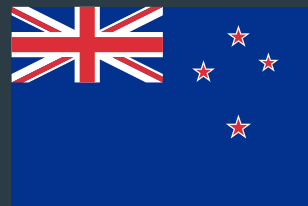
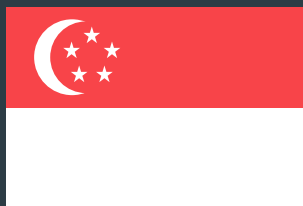
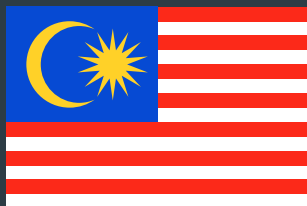
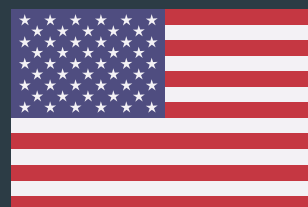
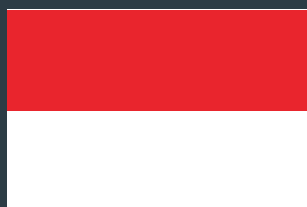
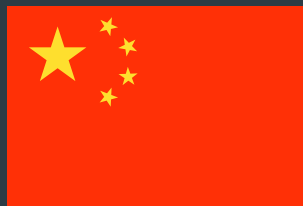
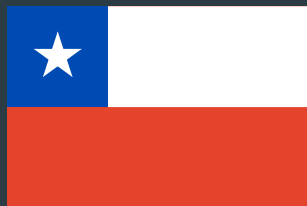
\$2M

To create a Small Business: A World of Opportunities advertising and information campaign.

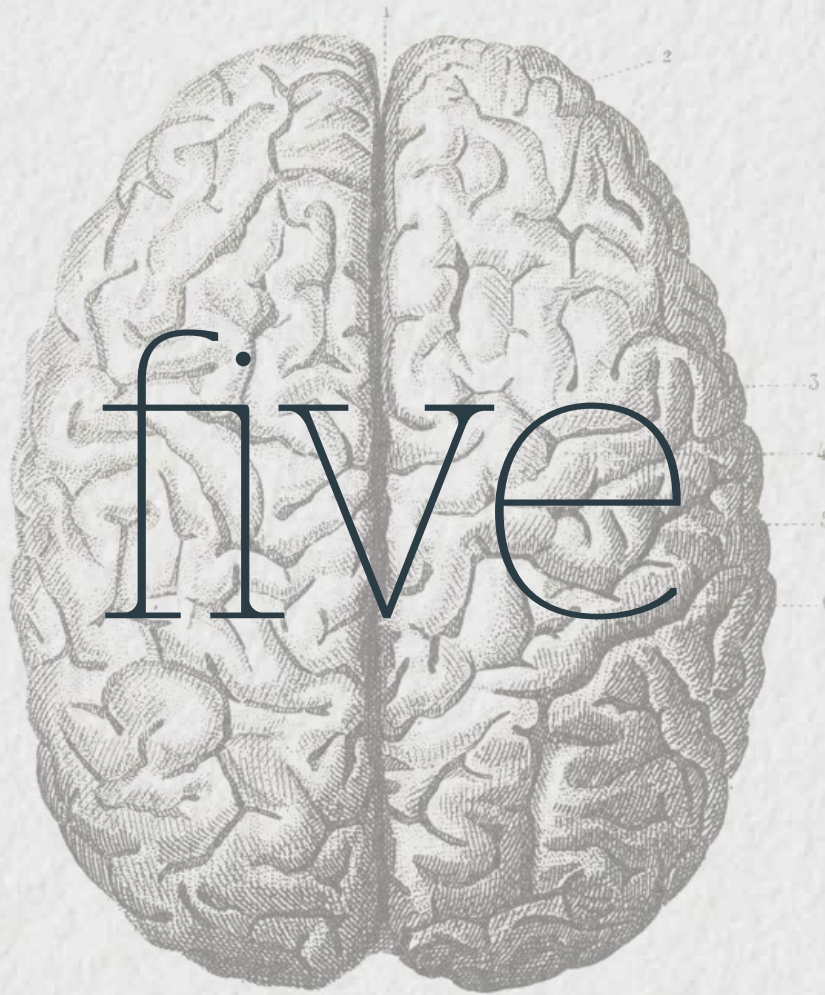


Free Trade Agreements: A World of opportunities.

Australia has FTAs in place or under negotiation with the Association of South East Asian Nations, Chile, New Zealand, USA, Malaysia, Singapore, Thailand, Korea, Japan, China, India, Indonesia and a number of gulf and pacific island countries.



71% Countries covered by these
FTAs account for 71 per cent
of Australia's total trade.



Encourage small
business innovation

Innovation: the key to boosting productivity, creating more and better jobs, enhancing competitiveness and growing an economy.

Innovation is recognised internationally as the key to boosting productivity, creating more and better jobs, enhancing competitiveness and growing an economy.

A stronger innovation performance across the private and public sector is therefore critical to improving Victoria's economic prospects in the highly competitive global marketplace.

Small business, as the engine of growth and driver of new ideas and risk taking, makes a significant contribution to innovation. This contribution needs to continue to be supported by policy makers at state and federal levels.

At the individual enterprise level, innovation may be represented by many activities, ranging from research partnerships with universities and other public sector research institutions on core technologies, through internally generated experience-based process and product improvements, to new ways to generate business (channels, markets, customers).

While firm level innovation tends to have a strong focus on economic gains, it can also contribute to society more widely by improving quality of life and providing solutions to broader social issues such as community and industry adjustment, health, education and the environment.

Innovation is influenced by demand and supply side factors – that is, both incentives and capacity for change. Increased competition can provide an incentive as businesses seek to obtain or maintain a competitive edge. Government driven incentives, such as R&D tax concessions, can also help spur innovation.

However, incentives, including necessity, are not the only factors that drive innovation. The private sector requires a workforce that is appropriately skilled. Innovation requires generalist skills, specialist skills, and increasingly, multi-disciplinary skills.

General innovation skills include decision making, problem solving, entrepreneurship and business sense, creativity, critical analysis, team work, culture, language, leadership and collaboration.

There is also a need for specialist skills in the areas of science, technology, engineering and mathematics (STEM), as well as management and professional skills in both traditional areas such as finance and marketing, and specialist areas such as innovation leadership and facilitation through teams.

Capacity also plays a major role. Innovation requires investment in labour and capital. Businesses caught up in day-to-day operations with limited cash flow and surplus capital will struggle to implement innovation despite their best intentions. Similarly, firms will be unlikely to invest in areas where they cannot capture the returns.

While market-based competition will remain one of the main drivers of industry growth, governments have a role to play in funding research; supporting public sector innovation; promoting innovation skills development; disseminating information; facilitating networking and collaboration; enhancing innovation enablers such as infrastructure, ICT and design; and encouraging innovation through 'good regulation' and strategic procurement.



51%

of small
businesses*
innovate

63%

of medium-sized
businesses
innovate

74%

of larger
businesses
innovate

Source: Australian Bureau of Statistics, Innovation in Australian Business, 2012-13, 8158.0

*Defined as businesses with 5-19 employees

While innovation can take many forms, it still relies heavily on formal research and development (R&D). The challenge is to grow small business spending on R&D.



What governments must do:

- > Reduce the company tax rate to 10 per cent on SME profits earned from their patents developed in Australia. This will help small businesses profit from their innovations and increase the adoption rate of Australian innovations by providing a longer term return on investment.
- > Amend the taxing arrangements of Employee Share Schemes (ESS) to ensure employees are not taxed upfront. This will encourage highly skilled entrepreneurs to apply their skills to commercialising Australian innovation.
- > Aim for a 30 per cent increase in science, technology, engineering and maths (STEM) graduates over the next decade. This recognises that a workforce with a strong STEM skills base is critical to business innovation.
- > Establish an investor matching service that profitable tech start-ups can utilise to leverage government support to scale more rapidly (such as the Federal Government's Commercialising Ideas Program and the Victorian Government's Innovation Voucher Program).
- > Ensure funding for the Victorian Government's Innovation Voucher Program is maintained in order to meet existing and anticipated business demand.
- > Expand the Victorian Government's Innovation Voucher Program to support ICT based R&D activities that help SME service sector businesses develop new and innovative value offerings.
- > Increase funding for the Victorian Government's Collaborative Networks Pilot Program from \$1.2 million to \$5 million and establish four new collaborative networks in the areas of health services, processed foods and beverages, advanced building materials and mining services and technologies. These networks will focus on facilitating linkages between small to medium sized enterprises, research institutions and industry, supporting innovation, trade and the creation of new products and services with a competitive advantage.

The program helps companies by providing a voucher that is used to access innovation and R&D facilities, training, goods, services, advice or expertise provided by other organisations, including universities, the CSIRO and research institutes. Victorian companies must make a minimum cash co-contribution of 25 per cent of the voucher amount requested which is a maximum value of \$25,000 for Innovation Business R&D and Smart Design vouchers, and a maximum value of \$10,000 for the Innovation Skills voucher.



Improve small business access to
competitively priced finance

VECCI fully supports and acknowledges the need for a strong and profitable banking sector.

However, we are concerned that the share of total lending to business compared to households has progressively declined. For example, in 1990, business loans were 60 per cent of total loans and residential loans 25 per cent. These shares have now reversed: residential mortgages account for 60 per cent of total lending, with business lending approximately 35 per cent.

Unlike larger enterprises, small businesses rely heavily on intermediated finance from financial institutions for their working capital, new capital expenditure e.g. on machinery, plant and equipment as well as opportunities for overall expansion.

Access to affordable finance has been an issue of significant concern for many Australian small businesses since the Global Financial Crisis (GFC), as major banks have become more risk-averse and conservative in their small business lending.

While some businesses are being denied credit due to unsatisfactory financial performance, VECCI is concerned that even businesses with strong trading records and solid lending proposals are finding credit restricted due to weakened balance sheets, reduced revenues or cash flows, and/or falling collateral values.

A lack of information for both borrowers and lenders prevents small businesses from maximising their chance of obtaining funds, and deters lenders from investing in worthwhile opportunities. Borrowers need to be able to effectively communicate their needs to the lender to ensure that an understanding is reached and to reduce the information asymmetry between the two parties.

Recognising that small businesses are fundamental drivers of jobs, innovation and investment, reforms that improve access to competitively priced finance must be a priority for policy makers.

What governments must do:

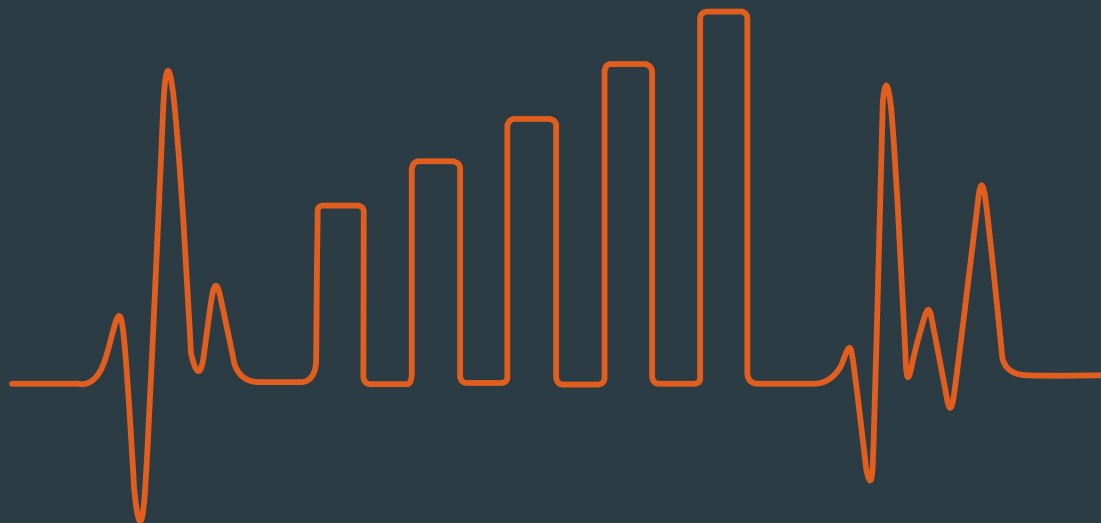
- > Adopt the Financial System Inquiry Final Report recommendations to narrow information gaps between small business borrowers and lenders, thereby facilitating greater access to lending for businesses.
A key objective of reforms to the Australian financial system must be to increase the level of total lending to SMEs by financial intermediaries.
- > Improve transparency and determine if financial institutions are improving their services to small businesses by requiring the Reserve Bank to conduct and publish a quarterly survey of financial sector lending to small business. This should include information on the level and nature of small business banking fees and charges, comparison lending rates, and clear explanations for any changes in them.
- > Consolidate existing federal, state and local government information on available small business grants and financial support under a single electronic point of entry, for example: www.business.gov.au/grants-and-assistance.
- > Allocate \$5 million for a program to provide tailored training to small business on how to produce stronger credit applications. This should include how to successfully complete loan applications and practical steps small businesses can take to strengthen their business case, deepen relationships with their business bankers, and document their technical capabilities in financial language.
- > Relatedly, encourage financial institutions to simplify credit application processes and documentation, making the lending evaluation criteria more transparent. Unsuccessful applicants should receive a statement explaining why the application was rejected and what steps need to be taken to address shortcomings.
- > Require financial institutions to simplify both the length and language used in financial product disclosure statements for small business products and services.
- > Commit to implementing the extension of unfair contract term protections to small business, as proposed by the Commonwealth Government and currently the subject of review by the Australian Treasury.
- > We encourage governments, industry and other membership organisations to explore new opportunities to address the funding gap for smaller companies looking for capital, including the possible establishment of a Business Growth Capital Fund to provide loans to fast-growth companies looking to grow their business further.

Closing the small business finance gap: What other countries are doing



MEZZANINE FINANCE

Prime candidates are profitable businesses with a track record of profitable and cash generative growth stretching back at least three years.



The £200 million Santander Breakthrough program in the United Kingdom is a good example of new approaches to plug the SME funding gap. Breakthrough offers investment in the form of a mezzanine loan. Mezzanine finance is a well-established tier of funding, occupying a position in the capital structure between conventional bank lending and private equity investment.

Recognising that business owners often regard any dilution of their shareholding as expensive in the context of future growth, and therefore unattractive, the mezzanine finance

facilities offered through Breakthrough do not have an equity component. The money is advanced solely in the form of debt, repayable at an agreed point in the future. In other words, the bank receives its return solely through interest repayments.

As every business is different, applications for funding are on a case-by-case basis. Prime candidates are profitable businesses with a track record of profitable and cash generative growth stretching back at least three years. The quality of management is also important.



Support small business access
to government purchasing

VECCI considers it is vital that small business has equality of opportunity in accessing government tenders.

Given the size of government spending, VECCI considers it is vital that small business has equality of opportunity in accessing government tenders. We have welcomed the commitment of successive state governments to include local content considerations in their industry participation policies.

Current Victorian Industry Participation Policy (VIPP) requires departments and agencies to consider opportunities for competitive local suppliers, including SMEs, when awarding contracts. VIPP applies to procurement activities that meet or exceed the following monetary thresholds:

- > \$1 million in regional Victoria
- > \$3 million in metropolitan Melbourne or for state-wide activities

Strategic Projects that exceed \$100 million in capital expenditure or \$250 million in whole-of-life cost are subject to additional local content requirements. However, within the VIPP framework there is no specific or prescriptive target in respect of how much local content should make up the value of a particular project (for example, 20 per cent of the total project or contract value).

VECCI considers the adoption of such targets could play an important role in encouraging more local content and greater SME involvement in government purchasing, provided they do not compromise overarching VIPP contestability criteria. SME suppliers would still need to demonstrate their competitive capacity in meeting VIPP criteria like 'value for money', employment, training, and technology transfer.

Feedback from VECCI members has revealed that small business involvement in government purchasing remains hamstrung by a number of barriers, including:

- > SME knowledge about procurement opportunities.
- > Unnecessary scale impediments.
- > Overly prescriptive tender specifications.
- > Overly burdensome prequalification rules.

Many small businesses transacting with governments also report late payment of commercial debts by agencies. In Victoria, Fair Payments provisions apply to contracts where the value of the goods or services does not exceed \$3 million. The provisions encourage agencies to pay debts within 30 days and penalty interest applies to late payments.

However, the use by agencies of fair payments clauses in contracts is tailored on a case-by-case basis and there is little available consolidated information on which to assess whether government agencies are paying business on time. The onus is on small business to invoke penalty payment clauses.

In 2012-13 Victorian Government procurement was worth almost \$3.4 billion. The challenge for policy makers is to create more opportunities for small business.

What governments must do:

- › Reduce the complexity of government contracts for small business and ensure the insurance required by small businesses reflects the size of the contract they are tendering for. Given small business often only tender for smaller, less-riskier contracts, the default should be between \$0 to \$10 million for public liability insurance and \$0 to \$5 million for professional indemnity insurance when contracting with small business.
- › Increase the likelihood of small businesses being paid on-time by requiring governments to publish how successful each major department and agency is at meeting the fair payment provision (i.e. 30 day payment requirement) for small businesses and set a 95% benchmark for all agencies.
- › Raise the threshold value of contracts to which Fair Payments provisions apply to those where the value of goods and services are up to and including A\$5 million (GST inclusive), to ensure consistency with Commonwealth Government legislation. Automatically add late payment fees to invoices not paid on time, removing the onus on small business to invoke penalty payment clauses.
- › Provide \$5 million in funding to deliver small business training on how to access government procurement, covering how to prequalify, where to find out about tenders, practical advice on how to form joint ventures and introductions to key procurement officers within government agencies.
- › Appoint a Victorian Procurement Coordinator to draw together skills and expertise across state and local government in procurement. Their role would be to deliver consistency, improve consultation with business and coordinate shared training and experiences among procurement officers in the public and private sectors.
- › Ensure small business capabilities and limitations are more effectively taken into consideration during the process of designing tenders for projects that fall within VIPP thresholds by establishing a Small Business Procurement Reference Group within the office of the Victorian Procurement Coordinator.
- › Enable small business to identify sub-contracting opportunities and build new relationships by requiring companies that have been awarded Government contracts to publicly list sub-contracting opportunities. Such a process currently exists in Western Australia.
- › To encourage greater opportunities for regional small businesses, encourage VIPP Plans to outline the level of value-add activities that will be sourced from regional areas.
- › For all Victorian Government procurement under \$150,000 (where three quotes are currently required), require at least one quote to be sought from a small-to-medium enterprise. For all government procurement that is not required to go to open tender, require at least one quote to be sought from a small-to-medium sized enterprise.

VECCI's Small Business Policy Taskforce

- > Karyn Sobels (Chair), Simply Business
- > Richard Holyman, Martin and Pleasance
- > Jeremy Johnson, Sovereign Hill
- > Chris Buckingham, Go To Pty Ltd
- > Chris Crewther, Mildura Development Corporation
- > Robert van Stokrom, DFP Recruitment Services
- > Damien Butler, Butler Pty Ltd Chartered Accountants
- > Graham Margetts, Balluff-Leuze
- > Terry Smit, Go West Tours
- > Jodie Vogt, CL Design Group
- > John Forman, Red Rock Leisure
- > John Ragg, VECCI Executive Council Honorary Life Member
- > Steven Wojtkiw (VECCI Policy Secretariat)

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