

**Submission to
Parliamentary Joint Committee
on Corporations & Financial Services**

**Inquiry into Access for Small and Medium
Business to Finance**



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Submitted by

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Preamble

The Association of Professional Engineers, Scientists and Managers, Australia (APESMA) is committed to protecting and advancing the interests of its self-employed members. This includes representing their views and interests in relation to policy settings and commercial practices which may differentially or negatively impact them; access to finance is clearly one of these issues.

We consider it critical that we play an active and considered role in responding to the challenges and changing patterns in the Australian labour market by supporting those who choose to move into commercially-based as well as employee work arrangements. Combined with a comprehensive range of employment-related services, APESMA and Connect - APESMA's special interest group for self-employed professionals - assist engineering, science and technology professionals to operate as micro-businesses. These professionals currently play a critical role in the dispersal of Australia's professional engineering, science and technology capability across industries including Defence, IT, Local Government, Mining, Power, Roads, Transport, Water and Telecommunications, particularly important in times of widespread skills shortages.

We thank you for the opportunity to make a brief submission to this Inquiry on the issues around access to financial services which affect our members operating micro and small businesses.

Section 1 - Background and introduction

The Association of Professional Engineers, Scientists and Managers, Australia (APESMA) is an organisation registered under the Fair Work Act 2009 representing over 25,000 professionals including professional engineers, scientists, veterinarians, surveyors, architects, pharmacists, information technology professionals, managers and transport professionals throughout Australia. In 1995, the Australian Industrial Relations Commission approved the amendment of APESMA's eligibility rules to provide coverage for independent contractors. APESMA can cover any professional engaged as an independent contractor who would be eligible for membership of the Association if they were an employee performing the same work.

As the only industrial association representing exclusively the industrial and professional interests of these professionals, assisting those who operate as self-employed contractors or micro-businesses is fundamental to APESMA's contemporary approach to representing the diverse interests of its professional membership.

In the late 1990s, in response to changes in the labour market¹, extensive outsourcing, downsizing and contracting out largely in state-owned instrumentalities and the Australian Public Service, and the significant and growing number of consulting professionals setting themselves up as micro-businesses, APESMA allocated significant resources to providing targeted services to these members. Since that time, the number of self-employed APESMA members has grown to more than 3,500. Around 50 per cent of these operate through a company structure, around 40 per cent operate as sole traders and around 7 per cent operate through a partnership or trust. Of those that operate through a company structure, most are micro-businesses while a small number own and manage small businesses generally with fewer than five employees. The scope of our comments then is restricted to micro and small enterprises (MSEs).

Services are provided via the Connect special interest group and include:

- advice on business startup and managing the transition from employee to consultant;
- information and advice on risk management practices and documentation;
- access to discounted professional indemnity insurance;
- a business mentoring program which matches experienced self-employed professionals with those transitioning to self-employment;
- information on recommended hourly rates;
- review of contracts for service by in-house solicitor;
- assistance with the Alienation of Personal Services Income tax rules;
- information on business planning, invoicing, preparing cash flow statements, etc.;
- networking services; and
- a professional development scholarship to assist with expanding and updating skills in the absence of a sponsoring employer.

APESMA offers these services through a comprehensive website of resources and information which is available at www.apesma.asn.au/connect.

Section 2 - Issues of concern for professionals operating micro and small businesses

Economic context

It is widely recognised that micro and small businesses have been severely affected by the global economic downturn of 2009/10² marked by an increased rate of business failure and reduced startups. It is also widely acknowledged that the GFC has resulted in a shortage of finance and reduced credit flows to MSEs.

In the current economic environment, the primary concern for professionals operating MSEs is the stability of their consultancy firms. Liquidity is therefore a key concern when financial difficulties arise with access to debt finance playing a critical role in maintaining cash flow, and supporting a consultancy. In positioning for growth coming out of the downturn, access to finance will also play a fundamental role in potential expansion and leveraging of growth and innovation opportunities.

Key concerns around bank lending practices and access to business finance

Member feedback suggests that banks are their main source of finance for members operating through a company structure and that there is a level of dissatisfaction with some of the major banks' lending practices in the following areas.

Financial services tailored to micro-business

Professionals operating MSEs may require financial services which do not fit the standard products and services available. As an example, they may require more frequent smaller-sized loans to ensure cash flow. (It is also possible that self-employed professionals may have a limited knowledge of the diversity of the product and service range of the banks – refer to Recommendation 2 on page 4.)

Growth and expansion limited by banks' risk assessment criteria

While a number of our self-employed professionals deliberately adopt a limited growth strategy, feedback suggests that those who have approached the banks to support an expansion of their business operation coming out of the GFC have at times been frustrated by the risk assessment criteria used. This includes the unwillingness of banks to lend where there is limited non-personal collateral, and a lack of what the banks refer to as "investment-readiness".

To improve investment-readiness and therefore their credit-worthiness - both legitimate concerns of the banks - micro-business may benefit from support for developing their business practices and documentation in areas such as cash flow, payment and debt management, internal accounting and business capability statements, as well as how to improve risk management procedures.

These findings are consistent with COSBOA's 2010 Survey of Small Business Banking and Finance in Australia.³

Our experience is that professionals operating as sole traders rely on family members and friends for access to finance, and that funding from financial institutions is more heavily reliant on personally-secured credit. Member feedback suggests that both sources of finance for this group have become more precarious in the current economic climate making these micro-businesses particularly vulnerable.

Extent of satisfaction with general financial services

APESMA's 2009 Survey of Independent Contractors and Consultants⁴ indicated that lack of income security was the major disadvantage of operating as an independent contractor or consultant. The survey also highlighted the importance of the availability of financial services to consulting professionals - 26.4 per cent of respondents reported that working under independent contractor arrangements sometimes, often or always caused problems securing a mortgage. 21.1 per cent indicated that it caused difficulties with obtaining a personal loan while 17.6 per cent indicated that working as a contractor caused problems paying bills sometimes, often or always.

These data suggest that in addition to the income insecurity which characterises self-employment, professionals operating micro-businesses often experience difficulties with accessing general financial services as well as accessing business finance.

Section 3 - Recommendations

In broad terms, the contraction in business and work opportunities and loss of personal wealth resulting from the GFC has disproportionately affected MSEs who depend on these opportunities and assets to support their consultancies and secure a line of credit. It is clear that improved business confidence generally, increased private investment in infrastructure projects and increased asset values will impact positively and improve prospects in these areas. APESMA supports fiscal and monetary policy settings which stabilise the economy and support growth, productivity and international competitiveness, alongside appropriate and supportive banking practices, to ensure ongoing improved business confidence and strength. Financial stability and access to finance are both recognised as critical planks of supporting the micro and small business sector⁵ and this should be a fundamental focus of Government in the present climate.

More specifically in terms of recommendations arising out of this Submission, APESMA recommends support for research to address gaps in our knowledge in the Australian context to gain an evidence-based understanding of the issues around micro and small business access to finance. We also recommend the provision of information on access to finance targeted at micro and small business by banks and other financial institutions, and the provision of Government-funded information and resources to assist micro and small business with “investment-readiness”.

Recommendation 1 - Research

In response to the issues raised by members, the Association recommends Government sponsorship of research in the following areas:

- evaluation of the risk assessment criteria utilised by banks to determine whether or not, and how, they differentially disadvantage micro-business - both business and general finance; and
- the impact of the GFC on micro- and small to medium enterprises in relation to personally-secured finance.

Recommendation 2 - Information from banks and other financial institutions

Firstly, we recommend that banks ensure self-employed professionals are aware of the diversity of products and services available and that marketing material targeted at micro-businesses and their needs is available.

Recommendation 3 – Information via business.gov.au

We also recommend making available through the business.gov.au gateway, information which would help micro-businesses improve their “investment-readiness”.

This information would comprise advice on:

- how to improve business risk management practices;
- implementing sound internal accountancy processes including payment and debt management procedures;
- preparation of business documentation such as cash flow statements and business capability statements; and
- business structures and the pros and cons for each option including the impact of operating through a company structure as opposed to a sole trader in terms of access to business finance.

This information would support micro-businesses preparing applications to financial institutions for business finance, but also provide organisations offering business mentoring and support with an additional resource.

Submission preparation

This Submission was prepared by Dr. Kim Rickard, Executive Officer, Connect - APESMA's special interest group for independent contractors and consultants (email: krickard@apesma.asn.au).

References

- ¹ The Australian Bureau of Statistics 2009 *Forms of Employment Survey* found that over one million Australian workers were engaged as independent contractors.¹ Of these, 15 per cent worked in the Professional, Scientific and Technical services industry, second only to the Construction industry. These figures confirm 2001 Productivity Commission data which estimated that around 10 per cent of self-employed contractors were professionals, a high proportion relative to other occupational groups.
- ² Hodorogel, R.G. (2009). The Economic Crisis and its Effects on SMEs. *Theoretical and Applied Economics*, 79-88.
- ³ Council of Small Business in Australia (2010). Submission to the Senate Economics Legislation Committee Inquiry into Access of Small Business to Finance. Retrieved 13 January 2011 from www.cosboa.org.au
- ⁴ APESMA (2009). APESMA Survey of Independent Contractors and Consultants, http://www.apesma.asn.au/employment/connect/pdfs/survey_report_2009.pdf (survey available online or hard copies can be provided on request)
- ⁵ Yesseleva, M. (2010). Australian Small Enterprises and their Business Banking and Finance Needs in International Research *Journal of Finance and Economics*, (57). Retrieved 13 January 2011 from www.eurojournals.com/finance.htm