



4 October 2002

**Submission to the
SENATE
EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE**

Inquiry into small business employment issues

Honourable Senators:

Regional Development South Australia represents the 13 regional economic development boards who are charged with facilitating economic development across regional South Australia.

The boards are a partnership between local communities, local government and the State Government. Leadership in regional economic development centres in the boards, which have substantial expertise in business facilitation, labour market programs, industry development and policy making.

The boards deliver a wide range of economic development services for their regional communities, including:

- ♦ business advice and assistance;
- ♦ business start-up facilitation;
- ♦ business incubators;
- ♦ employment and training programs;
- ♦ export development;
- ♦ industry cluster development programs;
- ♦ facilitation of regional infrastructure development;
- ♦ facilitation of State and Federal government assistance to regional businesses and communities;
- ♦ support for regional business associations;

Regional Development SA—the peak body for South Australia’s regional development boards

• Regional representation • Regional advocacy • Regional leadership • Results for South Australia

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- ♦ regional promotion;
- ♦ regional planning; and
- ♦ regional policy making.

The boards contribute substantially to regional business and employment outcomes in South Australia, and play an important role in influencing local, State and Federal planning and policy.

In addition to this submission, Regional Development South Australia would welcome the opportunity to make a presentation to the inquiry.

1 The effect of government regulation on employment in small business, specifically including the areas of workplace relations, taxation, superannuation, occupational health and safety, local government, planning and tenancy laws

Over the last few years, the Australian Taxation Office and Australian Competition and Consumer Commission have initiated regional outreach programs to make their services more accessible to regional small businesses. These initiatives are welcome, and many regional development boards are official partners of these programs. Other agencies such as the Employment Advocate have effective communication programs.

However, the level of complexity is extraordinary, particularly in the area of taxation. The GST itself can create problems for small businesses, particularly if they have made budgeting errors, or are caught by payments at times when cashflow is sparse. However, the burden of paperwork is the more serious problem. In our opinion, taxation systems are overburdened by the ATO's information collection initiatives. Billions of data items are collected annually, much of which is under-utilised or never utilised. By rationalising this aspect alone we believe that the administrative overhead could be substantially reduced without undermining the system as a whole. The complexity is exacerbated by difficulties in accessing information remotely, via enquiry lines or websites, because of the complexity of the information involved, and because of telecommunications issues.

2 The special needs and circumstances of small business, and the key factors that have an effect on the capacity of small business to employ more people

Small and micro (< 5 employees) constitute the great majority of businesses in regional South Australia, with micro businesses up to 97% of enterprises in regional areas. In our opinion, the key factors inhibiting small business growth in regional areas are:

- ♦ time-poverty—this is where government regulation really hits;
- ♦ limited access to personal and investor capital;
- ♦ uncertain cashflow streams—this is amplified in regional economies by fluctuations in commodity markets;
- ♦ a shortage of skilled tradespersons and professional skills;
- ♦ the costs of employing, including recruitment, training, leave and conditions, insurance and superannuation, and payroll tax;
- ♦ the potential negative consequences of employing staff if problems arise;

- a shortage of the enterprise skills required to grow businesses; and
- limited or inadequate regional infrastructure, particularly constrained electricity and water networks, lack of filtered water, lack of piped gas, and sub-standard telecommunications services.

Regional businesses are also affected by higher costs than their metropolitan counterparts, including:

- higher fuel and freight costs;
- higher costs of attracting, training and retaining skilled labour; and
- higher telecommunication costs.

Programs to address some of these issues are highlighted in our response to Term of Reference 4.

3 The extent to which the complexity and duplication of regulation by Commonwealth, state and territory governments inhibits growth or performance in the small business sector

We make no submission against this Term of Reference, other than to reiterate points made against Term of Reference 1.

4 Measures that would enhance the capacity of small business to employ more people

Employment grows when enterprises grow. As regional enterprises tend to be small, and clustered in high-employing industries, a key priority for the government needs to be the facilitation of regional enterprise growth.

Specific measures which could have a significant impact include:

- reducing the administrative overhead of regulation;
- freeing up assistance programs;
- reducing duplication between existing service programs; and
- the provision of regionally-loaded employment incentives.

The first of these points has been addressed under Term of Reference 1. The second and third measures are discussed in more detail below.

Freeing up assistance programs

The Federal Government has several programs aimed at facilitating growth in regional businesses and communities, including the Regional Assistance Program and the Regional Solutions Program. The Small Business Enterprise Culture Program supports enterprise skill development, particularly for women. The Area Consultative Committees and their staff, particularly the Small Business Assistance Officer, also provide assistance.

Funding programs are affected by a number of factors which significantly limit their impact:

- Programs are frequently under-resourced, and in many cases only a tiny percentage of applications are approved. At these extreme levels, it is evident that the problem is not the quality of applications, but the inadequate level of funding.
- Instead of boosting funding to sensible levels, the Federal Government has tended to adopt rationing mechanisms. For example, the Regional Assistance Program only has two rounds this year. Rigid timeframes limit the value of the programs for businesses, where opportunities come and go quickly.
- Programs require elaborate application processes, which are time-consuming and expensive. Given the very small chance of success, many potential applicants are reluctant to invest the time and energy required.
- Decision processes on applications are often lengthy, with Regional Solutions Program decision timeframes blowing out to 12 months. This is ridiculous, and severely limits the usefulness of the programs for regional employment growth.
- Decisions on applications are not transparent, and it is often impossible to find out at all, let alone in detail, why applications are not successful. This is a disincentive for applicants, and results in a higher level of unsuccessful applications because the feedback loop is not closed.
- In the past, programs have been limited by criteria that are too narrow. An example is the Small Business Enterprise Culture Program. This trend appears to be shifting, with the Regional Solutions Program much more accessible.

The value of these programs could be dramatically improved by:

- higher resourcing;
- flexible application timeframes;
- streamlined application processes;
- shortened decision timeframes; and
- transparent decision processes against publicly available criteria.

Reducing duplication between existing service programs

South Australia's Regional Development Boards enjoy cordial relations with the Federal Government's Area Consultative Committees, and several board members or staff members are also members of ACC boards.

However, the ACC framework represents an investment of more than \$1 million by the Federal Government annually in South Australia alone. In our opinion there are significant opportunities for rationalising the relationship between the Regional Development Boards and the ACCs to reduce administrative overheads and direct savings into hands-on economic development activities.

The Federal Government's investment in the provision of ACC Small Business Assistance is welcome. Again, however, this is a duplication of a function the boards are already providing effectively, and results in business confusion, and communication and coordination issues.

The Federal Government would receive a better return on its investment, and regional businesses would be better served, by resourcing the boards to extend their existing business facilitation services.

The provision of regionally-loaded employment incentives

State and Federal Government programs provide employment facilitation and financial assistance to employers and employees. However, these programs do not recognise the special difficulties of employing in regional areas—the shortage of skilled tradespersons and professionals, and the higher costs of attracting, training and retaining staff.

We strongly recommend that the committee consider how additional incentives might be provided to employers in regional areas to reduce the costs of employment. Examples include additional regional employment incentives and training subsidies and payroll tax rebates or exemptions.

Thankyou for the opportunity to present this submission.

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