

29 June 2016

Australian Small Business and Family Enterprise Ombudsman
GPO Box 1791
CANBERRA CITY ACT 2601

Sent via email to: advocacy@asbfeo.gov.au

Dear Sir/Madam,

Master Electricians Australia (MEA) appreciates the opportunity to provide a submission in response to the discussion paper, *Advocating for Small Business and family enterprise*.

MEA has worked hard on improving business conditions and regulation for electrical contractors that maintain the highest standards but strip out red-tape and protect from unfair practices. Given that a large proportion of MEA's membership comprises of small businesses and sole contractors we believe we can make a valuable contribution to this inquiry.

We have raised below some of the key areas of concern to electrical contractors in the small business category and a number of strategies to address these issues that we recommend the Ombudsman consider as part of its advocacy function.

Security of Payment

The vast majority of electrical contractors fall into the small business category and will more often than not operate as subcontractors on a building site. A problem commonly encountered by these electrical subcontractors involves a head contractor holding retention monies until they are satisfied that the work on a project has been completed. The subcontractor is then put in the difficult position of being subject to the principal contractor's opinion on the quality of the electrical work they have performed. In the meantime, the retention monies held are accumulating interest for the principal contractor while the electrical contractor is left unpaid for the work they have performed. Notably, in MEA's 2015 Charge out survey, the issues identified as being of most importance by members were cash flow and debtor management. The timely return of retention monies is critical to ensuring smooth cash flow and debtor management for small businesses, many of which have slim profit margins and rely on prompt payment to keep their businesses afloat.

This has a particularly detrimental impact on subcontractors when a head contractor becomes insolvent, leaving subcontractors on a long list of unsecured creditors seeking payment. This can destroy the financial stability of subcontractors, particularly small businesses who rely on prompt payment and steady cash flow to keep their businesses afloat.

In order to overcome this situation and prevent electrical contractors, and other subcontractors, being out of pocket for their work, MEA proposes the introduction of a system whereby retention monies go to Escrow pending completion of the relevant works. This would be similar to the process adopted by the various Residential Tenancies bodies across Australia in which the bond paid by a tenant at the start of a lease is refunded in full provided no damage or loss

has been incurred by the owner. An industry or government trust style fund could be established for the building industry where these retention monies could be held pending project completion.

NSW has already introduced a retention trust scheme with the costs involved in administering the scheme offset through lodgement fees for audit reports that will need to be prepared by head contractors. MEA recommends that the Ombudsman use its advocacy functions to encourage all other states and territories to follow the NSW government's lead and introduce a retention trust scheme.

Employment of apprentices

The process of employing an apprentice can be complex and time consuming for any employer. This is particularly the case for small business owners who have limited resources to dedicate to these tasks in addition to staying on top of the day to day activities associated with sustaining a business. There are a number of steps involved from finding a suitable applicant, working with an Australian Apprentice Centre to lodge a training contract and complete a training plan and navigating eligibility for the government incentives and subsidies available. All of this before any kind of training begins. These administrative processes are on top of the standard steps that must be followed when a new employee is taken on, making the hiring of an apprentice even more daunting for a small business or sole trader. MEA proposes a streamlined system with a central repository of incentives to ease the administrative burden for small business.

We recommend that the Ombudsman consider the above in its representations to government on behalf of small business.

The Tax System

While the initial introduction of the GST reforms was effective in terms of engagement with small business, the burden of taxation compliance remains problematic. In fact, the Institute of Public Accountants (IPA) describes small businesses in Australia as the “unpaid bookkeepers for regulators”¹.

In terms of employment, the introduction and development of the paid parental scheme and compulsory superannuation has left small businesses needing to invest a significant amount of time to meeting the administrative requirements of regulators. The IPA further commented that the practice of building special concessions into the tax law to ameliorate the taxation burden on small business is largely ineffective due to the complexity involved in order to claim these concessions.

¹ <http://www.publicaccountants.org.au/library/media-releases/preferentialtreatment>

Electricity prices

The rising cost of electricity is having a significant impact on the financial stability of small business. It is critical that small businesses have the resources and tools to become more energy efficient in order to minimise their electricity costs.

Information strategies need to be developed that are specifically targeted at small businesses. These could include advice on energy auditing services that are available and information on the incentive programs available to make the uptake of solar PV more financially viable for small business owners.

Red tape burden

The above are just some of the obstacles facing small business on an everyday basis. The weight of this regulatory burden calls out for change in the culture of government from one that promotes red tape to one that actively works to reduce it, with a focus on the cumulative effect of regulation. MEA recommends that the Ombudsman work with Government to address these issues, particularly the impact that the cumulative regulatory burden has on small businesses throughout Australia.

Yours sincerely,



Jason O'Dwyer
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