



LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON ECONOMY AND GENDER AND ECONOMIC EQUALITY
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Submission Cover sheet

**Inquiry into Micro, Small, and Medium
Businesses in the ACT Region**

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The Committee Secretary
Standing Committee on Economy and Gender and Economic Equality
ACT Legislative Assembly

Via Email: LACommitteeEGEE@parliament.act.gov.au

MASTER BUILDERS ACT SUBMISSION TO THE INQUIRY INTO MICRO, SMALL, AND MEDIUM BUSINESSES IN THE ACT REGION

Thank you for the opportunity to provide a submission to the Inquiry into Micro, Small, and Medium Businesses ('small businesses') in the ACT Region.

This inquiry is highly relevant to the building and construction industry given the high proportion of small businesses in our industry. The structure of the building and construction industry is unique in that it comprises a majority of small businesses. Of the 6,626 construction businesses in operation in the ACT as at 30 June 2023, 98.5 per cent had fewer than 20 employees.

Building and construction is one of the largest sectors of the ACT economy. As at November 2023, the total ACT building and construction workforce had increased to 19,079. This is equivalent to 7.1 per cent of all jobs in the ACT.

Latest ABS figures indicate that the total value of building and construction work done over the year to June 2023 totalled \$4.13 billion in value. This comprises:

- \$2.04 billion in residential building
- \$1.19 billion worth of non-residential building; and
- \$898.0 million in civil and engineering construction activity.

Our industry also does the heavy lifting when it comes to supporting apprentices and trainees. The building and construction industry is the number one employer of apprentices and trainees in the ACT. At the end of March 2023, there were 2,156 construction apprentices in-training in the ACT, which represents 35.7 per cent of all ACT apprentices.

COVID-19 Context

We note the Inquiry's terms of reference specifically exclude the impacts of the COVID-19 pandemic and lockdown on small businesses across the ACT. While our submission does not intend to respond to the ACT Government's response to the COVID pandemic, the lasting impact on small and medium businesses cannot be ignored. While the direct impact of the pandemic and lockdown might be over, the financial impact on the balance sheets, cash flow and viability of small and medium business is still present.

The ACT economy is still suffering the aftereffects of the COVID-19 lockdowns and the persistent impacts of high inflation. For at least the last two years, local businesses have suffered from a multitude of economic and political impacts, including:

- The highest levels of inflation in over 30 years
- Labour shortages, which are being compounded by chronic shortage of housing and high cost of housing which is impacting local business' ability to attract workers to Canberra
- Persistent (but easing) supply chain disruptions
- Uncertainty about Federal and ACT Government investment in infrastructure spending, and
- A barrage of new and proposed legislation, adding to the significant red-tape burden on small and medium businesses.

These challenges are feeding an environment of uncertainty, continued cash flow pressures, low productivity and a high-risk business environment.

About Master Builders ACT

Master Builders ACT is the peak industry association for the building and construction industry. We represent over 1,000 members across residential and commercial builders, civil contractors, subcontractors, suppliers, and professional sectors of our industry.

Our members represent all levels of the supply chain, from the landowner and developer, through to builders, subcontractors, suppliers, designers, and engineers. Our members also include professionals who advise these building industry practitioners, including lawyers and accountants.

We operate Canberra's largest specialist building and construction industry training organisation, MBA Group Training, which currently trains approximately 200 carpentry apprentices and more than 10,000 construction workers in short courses each year.

Factors which impact Micro, Small and Medium Businesses in the ACT

There are four main issues we would like to highlight to the Committee that impact small building and construction businesses in the ACT, namely:

- The ACT Government regulatory burden on small businesses
- The impact of ACT Government procurement policies on small businesses
- The ACT Government's approach to engaging with small businesses, and
- The cost of running a small business in the ACT.

ACT Government Regulatory Burden on Small Businesses

The scale of regulatory burden caused by ACT Government regulation is high. In 2023 alone, the ACT Government introduced around 1,332 Acts, Bills, Subordinate Laws, Disallowable Instruments, and Notifiable Instruments. At least 125 of these regulations impacted the building and construction industry.

Said another way, there was a regulatory change that impacted the building industry every second working day created by the ACT Government.

New regulation disproportionately impacts small business compared to larger business because small businesses don't have the resources to employ in house legal experts to continually track the impact of new regulation on the operations of the business.

In the absence of inhouse resources, small businesses will rely on a variety of external sources of information, including:

- Paid advisors such as lawyers and accountants
- Industry associations or professional bodies
- ACT Government agencies, or
- Free sources, which often includes Google searching information.

Paid advisors are a useful source of information when new regulation is introduced which impacts a broad cross-section of businesses. For example, changes in an Australian Tax Office ruling or tax rate can be communicated by an accountant to all of their clients. However, it is very expensive for small businesses to source specific and detailed advice from paid advisors every time a new regulation is introduced.

Small businesses rely heavily on industry association and professional bodies for information about regulatory changes. However, with the exception of the new ACT planning system, the level of support, training and resources provided by ACT Government to assist industry associations and professional bodies communicate with their members is poor to completely lacking. Not all small businesses belong to an industry association or professional body.

ACT Government agencies rarely provide useful information to support new regulation such as training courses, resource information, or provided dedicated staff to assist small businesses adapt to new regulation. Our observation is Government support for new legislation is trending towards becoming poorer, not improving.

If the three sources of information described above are not utilised by small businesses, then often searching for information on public platforms or asking friends or colleagues is the last resort. This approach often leads to incomplete or inaccurate information being relied upon.

ACT Government Procurement Policies

Each year there is approximately \$600 million to \$1 billion in construction work tendered by the ACT Government. These ACT Government projects represent a valuable pipeline of construction for small construction businesses.

For good reason there is strong regulation and policy to guide ACT Government procurement decisions. This regulation includes measures which ensure companies contracting with the ACT Government meet minimum financial requirements.

Using the purchasing power of ACT Government procurement is also a useful way of implementing new Government policies or trialing new policies before legislating. For example, the ACT Government has used its procurement process to trail projects which increase the number of women working in construction roles, supporting local contractors, or mandating minimum number of apprentices or trainees.

While all of these initiatives are worthy, there has been a progressive increase in the number of Government procurement policies that apply during the procurement process. This increase in policy means the time taken to prepare tender submissions and the amount of documentation required to be submitted with tenders is ever increasing.

The level of effort required to respond to an ACT Government tender is now significant, to the point it can discourage small businesses from replying to tenders, because the cost of responding to the tender may exceed the financial return from winning the tender.

The impact of this inefficient procurement system is that it discourages small businesses from competing and winning ACT Government tenders, and it favours large companies who have inhouse teams or other resources who can meet the significant tender documentation requirements.

ACT Government's Engagement with Small Businesses

The ability for small businesses to contact the ACT Government for assistance is becoming increasingly difficult and complex. Government's primary method of receiving enquires from small businesses is via Access Canberra. Access Canberra attempts to provide a single point of contact for small businesses (and the broader ACT community), to directly service or refer small business customers to the relevant directorate within Government.

This approach makes it difficult to quickly contact relevant Government staff directly. Call waiting times on Access Canberra phones are long. Often a general response from an Access Canberra staff member does not provide the quality and detail necessary to answer questions about complex Government legislation, policy or processes.

Instead, a system which connects small businesses directly with Government staff who can answer questions and assist small businesses navigate complex Government processes is required.

The cost of running a small business in the ACT

The cost of running a small business in the ACT is high. Some of the costs of running a small business in the ACT include:

- The rate of workers compensation insurance in the ACT is higher than any other State or Territory (2.10% of wages in the ACT).

- ACT has the highest rate of payroll tax (at 6.85%) of any State or Territory in Australia (although the threshold in which payroll tax becomes payable is higher in the ACT compared to other jurisdictions).
- Based on 2021-22 ABS data, property related taxes as a share of total tax revenue are the highest in the ACT (at 57.7%) compared with any other State or Territory.

These costs don't factor in the compliance cost of small businesses complying with ACT Government legislation.

Recommendations

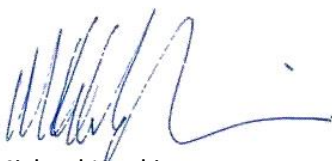
The following recommendations are made for the Committee to consider:

1. Comprehensive regulatory impact statements are prepared as part of developing new legislation, which specifically identify the compliance cost for small businesses.
2. The implementation of new ACT Government legislation is supported with training and resources specifically aimed at small businesses.
3. Wherever possible, new legislation is introduced in a nationally consistent way which follows national model laws (where applicable), with nationally standard implementation timeframes.
4. Consideration is given to transition periods and implementation processes when new laws are made. A consistent approach to transition processes for any new law applying to the building and construction industry should be adopted where possible.
5. Government directorates who are responsible for engaging with small businesses provide direct contact details for customer-facing staff, so that engagement and communication between Government staff and small businesses are improved.
6. The ACT Government commence a reform project which investigates the reasons why ACT workers compensation costs are so high and commit to reforms which reduce this cost.
7. The ACT Government commence a review of procurement processes and policies with the aim of reducing the regulatory burden on small businesses, without reducing the policy objectives or governance standards, so that there is an even playing field for all business (regardless of size) tendering for ACT Government work.
8. The ACT Government bring forward the ACT's inclusion in the national automatic mutual recognition scheme, so that the regulatory burden of holding duplicated building practitioner licensing across multiple jurisdictions is minimised.

Conclusion

We are available to discuss any aspect of our submission with the Committee.

Yours sincerely



Michael Hopkins
Chief Executive Officer