

# TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Budget estimates 2019–20 (Small Business)

Melbourne—Tuesday, 11 June 2019

#### MEMBERS

Mr Philip Dalidakis—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Ingrid Stitt

Ms Bridget Vallence



**WITNESSES**

Mr Adem Somyurek, Minister for Small Business,

Mr Simon Phemister, Secretary, and

Mr David Latina, Deputy Secretary, Jobs, Innovation and Business Engagement, Department of Jobs, Precincts and Regions.

**The CHAIR:** Good evening, everyone. Welcome back to the Public Accounts and Estimates Committee. I declare open this hearing. On behalf of the Parliament, the committee is conducting this inquiry into the 2019–20 Budget Estimates. Its aim is to continue to scrutinise public administration and finance in order to improve outcomes for the Victorian community. The committee will now begin the consideration of the portfolio of Small Business. I welcome the Minister for Small Business, the Honourable Adem Somyurek, and officers from the department, and I thank you all for appearing before the committee today. Although, let us be honest, you really did not have much choice.

All evidence given is protected by the Parliamentary Committees Act. This means that it attracts parliamentary privilege and is indeed protected from judicial review. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

Minister, I invite you to make a brief presentation or statement of no more than 5 minutes. Over to you, Minister.

**Mr SOMYUREK:** Thank you, Chair. Victoria is leading the way as Australia's best location for small and medium-sized businesses. More than 618 000 registered businesses are now operating in Victoria. Twenty-six per cent of those businesses are operating in rural and regional Victoria. Six hundred and four thousand of these businesses are actually small businesses; 98 per cent therefore of all businesses are small businesses in our state.

In the year to June 2018 Victoria recorded Australia's highest net growth rates in the number of small businesses at 4.8 per cent per annum. That is the fastest growing small business sector in the country. Small businesses are responsible for generating 35 per cent of gross state product, and 44 per cent of all private sector employment is from small businesses. Small businesses are an important contributor to growth in some of Victoria's most important industry sectors, including construction and professional services.

Moving on to small business services and supports: the government is continuing to support small businesses and communities across Victoria with the assistance they need to grow and succeed. The 2019–2020 state budget has provided a further \$2.5 million to support SMEs to strengthen their business growth capabilities through more workshops, more events, more mentoring and access to more digital information. The government is also supporting small businesses to adopt new technologies to remain competitive and pursue new business opportunities.

If we can now move on to budget output measures: in 2019–2020 we aim to assist 30 000 participants in targeted and inclusive events and business programs, which is the same target as last year—that is, 18–19 financial year. In last year's budget we funded a new year-round small business events model that offers more flexibility for businesses and aligns with the government's priorities of inclusion and local participation. Business Victoria Local Events is supporting and funding local and regional partners in order to run events for businesses in their local areas. This new program model also enables us to pilot some new targeted programs that align with the government's priority areas. I am confident these new programs will contribute to a more inclusive and fair small business environment by focusing on events for business people with disabilities, Aboriginal-owned businesses, women, seniors and youth in business and culturally and linguistically diverse small businesses.

Chair, our events partners have already started on their 2019 event activities. The first event ran in early February this year, with Retail Quarter Melbourne at the Melbourne Convention and Exhibition Centre. We supported the participation of local Aboriginal businesses who are manufacturing and wholesaling Victorian Aboriginal products.

Since March this year I have announced event funding to business chambers in Ballarat, Bendigo, Horsham and Shepparton, with more funding announcements to come. Since the new model commenced in January 2019, we have funded 40 local chambers, councils and organisations for the delivery of year-round events in regional and metropolitan areas. We expect to deliver at least 400 events, which is comparable to the 400 events delivered as part of the Small Business Festival in August 2018. The positive response of stakeholders to our new Business Victoria local events is encouraging. We are also aiming to reach 3 million small businesses through the Business Victoria digital channels.

The Victorian Small Business Commission continues to support a fair and competitive environment for Victorian SMEs to operate and grow. The commission aims to mediate at least 75 per cent of business disputes presented to it. This figure is consistent with previous years.

We can now move to 'A fairer business environment'. The government is creating a fairer business environment so Victoria's SMEs can continue to prosper. As the only state government signatory to the Australian supplier code, the Victorian government is committed to paying their small business suppliers within 30 days. The Victorian small business commission is providing SMEs with low-cost dispute resolution services, which have delivered an 81.5 per cent success rate for more than 400 businesses. Victorian small businesses across regional and metropolitan Victoria are benefiting from almost 300 workshops in 80 locations, and the Small Business Bus has reached more than 1400 people in 175 locations.

The small business regulation review and the Better Approvals project are cutting red tape, saving businesses time and money and reducing the time it takes to start a business.

**The CHAIR:** Thank you, Minister. We will have to move to questions now.

**Mr RICHARDSON:** Thank you, Minister, Secretary and Deputy Secretary for coming along tonight. I wanted just to direct you to budget paper 3, page 124, which outlines a number of changes to payroll tax. I wonder whether you could walk the committee through the changes to payroll tax, specifically the changes to thresholds.

**Mr SOMYUREK:** Thank you, Mr Richardson. The budget contains an increase in the threshold for payroll tax for all Victorian businesses and in the rates for those whose workforce are located in regional Victoria. This government understands that one of the most effective ways that government can contribute to creating an environment in which small businesses thrive is to cut red tape and indeed lower the burden of taxation, especially taxation such as payroll tax, which effectively punishes small businesses or businesses as they employ more workers.

Any tax that provides a disincentive for business to employ people is bad public policy. I am happy to be part of a government that is actually cutting or reducing the payroll tax burden on Victorian businesses. Our reforms have cut the cost of doing business and supported a strong economy. The numbers speak for themselves: since coming to office in 2014 we have created 80 000 new businesses. The Victorian small business sector has become the fastest growing in the nation, growing at 4.8 per cent per annum last year, and the Victorian small business sector, according to the latest Sensis data, is the most optimistic in the nation in increasing sales, profits and employment.

Mr Richardson, in its first term of office the government increased the payroll tax threshold from \$550 000 when we came into government in 2014 to \$650 000 as it is now, and we will be further increasing that threshold to \$700 000 by the year 2023. That means 1400 Victorian small businesses will no longer be paying payroll tax. For the next couple of years—from 2021 to 2023—the threshold figure will go up by \$25 000 until we get to \$700 000. As I said, that is 1400 businesses—Victorian businesses—no longer paying payroll tax.

**Mr RICHARDSON:** We have heard through hearings so far, Minister, the government's support for regional areas, and there are also reductions in payroll tax for regional areas we have heard about. Could you please outline for the committee the substance of these changes?

**Mr SOMYUREK:** In our first term of office we slashed payroll tax rates in regional areas to the lowest in the nation. The regional payroll tax rate is now 2.425 per cent. The current rate has spurred significant investment in regional Victoria. It has seen regional small businesses grow and offer employment opportunities

to more regional Victorians. We have seen the benefits of these cuts to regional payroll tax rates, and we have therefore taken action.

In this budget we have a plan to progressively reduce payroll tax rates even further in regional Victoria. By 2022–23 the payroll tax rate in regional Victoria will be 1.2125 per cent, a quarter of the metropolitan rate and the lowest in the nation—in Australia—so far. We also have changed the rules governing those companies eligible for these payroll tax concessions. Under the previous regime a company would need to be based in regional Victoria in order to be able to claim these concessions. Our change means that companies now, irrespective of where their head office is located, can still claim the concession rate of payroll tax as long as their workforce is or they produce in regional Victoria.

Before this new measure came in, if a company's head office was located in Melbourne, for example, and its workforce was predominantly in rural or regional Victoria and you, let us say, had a factory site in rural or regional Victoria, it was not eligible to receive the payroll tax concession. We have changed that. We have listened to the small business sector and we have listened to regional areas and we have made the change.

**Mr RICHARDSON:** I want to take you, Minister, to theming the questions around some of the construction that is underway in our state. We have heard a significant amount of construction projects are underway in Victoria. Minister, I refer you to budget paper 3, page 238, and the measure of small business satisfaction with your department's programs. Does that include any role taken to ensure minimising disruption to small business from the transport projects that are underway across our state?

**Mr SOMYUREK:** Thank you, Mr Richardson. Mr Richardson, my department monitors these projects and works with the contractors and all relevant departments to help mitigate the short-term impacts. Since 2015 small businesses disrupted by major infrastructure projects, such as the Metro Tunnel, the Level Crossing Removal Project and the streamlining of Hoddle Street project, have been supported through business assistance services. In addition the Metro Tunnel, the Level Crossing Removal Project, VicRoads and major road projects have actively engaged local businesses in addressing concerns and developing localised campaigns to mitigate disruption from construction works.

It is worth highlighting that earlier this year the Victorian Small Business Commission launched engagement guidelines. The guidelines provide a tool for constructive engagement between small businesses and organisations undertaking nearby potentially disruptive infrastructure projects. The guidelines are structured so organisations map out their projects in a way that considers the needs of small businesses and seeks to uncover low-cost practical solutions to mitigate the potential impacts of infrastructure projects. The commission has also developed a version of these guidelines that addresses the needs of small businesses directly, called *Guide to Managing Disruption*—that is what the guide is called. The guide was created in 2019 in order to provide small businesses with a complimentary list of tips for staying on track during potentially disruptive infrastructure projects. The guide is structured to help businesses consider the following: the likely impact of the works on their businesses; ways to communicate with the project manager, customers and other businesses in the area; and creating ways to mitigate the impacts of construction.

**Mr RICHARDSON:** And on that point, the Chair and I would be very interested in that in regard to the Mentone and Cheltenham level crossings and the business communities through there. But, Minister, can you explain for our committee an example of where this has worked?

**Mr SOMYUREK:** Thank you, Mr Richardson. The Metro Tunnel project is one example. In that case the Victorian Small Business Commission has been making sure its services, sometimes delivered in conjunction with Small Business Victoria, are available. Rail Projects Victoria, or RPV, has negotiated with the Victorian Small Business Commission to include its dispute resolution role in the approved Metro Tunnel business support guidelines for construction. In the Parkville station, State Library station, Town Hall station and Anzac station precincts, RPV and its contractors have supported businesses with significant signage and wayfinding. The Victorian Small Business Commission has a dispute resolution role in the approved Metro Tunnel business support guidelines for construction. Small business mentoring assistance is also available and provided to work with businesses during the period of the works.

**Mr RICHARDSON:** I am mindful of the time, but in the final couple of minutes, referring to the small business commissioner's work there, Minister, I refer you again to budget paper 3, page 238, and specifically the performance measures related to the small business commissioner. Could you outline for the committee what work is being done by the small business commissioner through the provision of mediation services to assist small businesses?

**Mr SOMYUREK:** Thank you, Mr Richardson. The commission has four main roles: advocacy, dispute resolution, engagement and mentoring. Dispute resolution and mediation is a core function of the commission. To give you a sense of the volume of work the commission deals with, in the last financial year they took nearly 12 000 telephone calls and received 1708 dispute applications. Of those disputes that went to mediation—some are actually resolved through the provision of information, so not all actually get to mediation—78.2 per cent of those that got to mediation were actually resolved. Now, in last year's budget, funding was provided to update the office with a specific focus on improving the mediation rooms. The work is currently underway as we speak. This financial year so far we have seen 1544 dispute applications, which is a 25 per cent increase compared to the same period in 2017–18, reflecting, I guess, the increased workload, perhaps, and activism of the small business commissioner, and certainly an increased awareness of the role of the Small Business Commission and the small business commissioner. Now, there was an 81.5 per cent success rate for the 426 completed mediations to date in 2018–19, exceeding the 75 per cent target. One way the commission is getting through more work is by implementing a new dispute resolution methodology so issues can be more easily resolved prior to mediation. This obviously saves time and money. It saves the time of the small businesses and saves time for the commissioner.

**The CHAIR:** Minister, that is a very good segue, because it is time to pass on to the next member of committee. That will indeed be Ms Vallence.

**Ms VALLENCE:** Thank you, Minister and officials for appearing today. Minister, I refer you to budget paper 3, page 230, which deals with the department's objective to develop a competitive business environment, including support for small business. Regarding the government's announcement to establish a business growth fund in conjunction with two superannuation funds just last Friday, which I understand is designed to support small and medium enterprises, could you please advise us here on the committee the funds eligibility criteria for investments with small and medium enterprises?

**Mr SOMYUREK:** Thank you, Ms Vallence. This was an initiative announced by the Treasurer last Friday, and it is a fantastic announcement. It is one of the big problems that small businesses have. I think we are all aware of the problems that start-ups have, in getting ideas to market and the lack of a venture capital industry we have in this country. That is a big problem for us. However, not many people understand that issue. Not many people understand the fact that small businesses, in growing past being a small business, have big challenges with respect to access to finance in order to grow more. So what that is doing is stifling growth of the small business sector and therefore holding back not only the small business sector but also holding back the Victorian economy.

**Ms VALLENCE:** So eligibility criteria really was the nub of the question, Minister.

**Mr SOMYUREK:** In terms of eligibility criteria, the Treasurer announced that. Obviously this sits within the portfolio of the Treasurer so he is the one to sort of go through all of the details.

**Ms VALLENCE:** So given that it is obviously directed at small businesses and that being your portfolio, is that not something that you would be familiar with, what the criteria are for those small businesses?

**Mr SOMYUREK:** Well, it might be. The small business sector is a whole-of-economy sector, so no government decision or economic activity can be taken without impacting small business, and this is certainly one of those things.

**Ms VALLENCE:** Could we get that criteria on notice, perhaps?

**Mr SOMYUREK:** Okay. I can get you the criteria, but it is the Treasurer's fund.

**Ms VALLENCE:** Thank you. Will the terms be at commercial rates, discounted rates or at a premium?

**Mr SOMYUREK:** Can I just go back to the previous question—I have just been handed a note. Details of the Victorian Business Growth Fund’s operations are still being developed between the government, First State Super and VicSuper. If we can just sort of—

**Ms VALLENCE:** Yes, I note that there is no formal agreement, but if it is \$50 million of the taxpayers money, surely there is some sentiment and knowledge behind that before you throw \$50 million at something? So will the terms be at commercial rates, discounted rates or at a premium?

**Mr SOMYUREK:** Are we going back to—

**The CHAIR:** Sorry, Minister. As the minister has indicated, that this is a policy area of the Treasurer and you have the right to put in a question on notice to the Treasurer about the program, I think we should move on.

**Ms VALLENCE:** Right. So on that, though, are you saying, Minister, that you have no familiarity with this particular fund?

**Mr SOMYUREK:** Well, it is the Treasurer’s fund, and what we do in this government—and I think it is good governance practice—is to have lines of accountability and responsibility. This is the Treasurer’s responsibility; therefore in terms of details of the fund the Treasurer is responsible.

**Ms VALLENCE:** Will your portfolio have any involvement in this fund?

**Mr SOMYUREK:** My portfolio will benefit from this fund. In fact the whole of the Victorian economy will benefit from this fund.

**Ms VALLENCE:-** Do you know when the fund will commence?

**Mr SOMYUREK:** The details are being worked through by the Treasurer.

**Ms VALLENCE:** Okay. We will put those on notice; thank you, Chair, for that offering. We will put those on notice to the Treasurer.

Minister, in July 2016 your predecessor—and our Chair—said that small businesses are the lifeblood of our rural and regional economies and we are ensuring that those businesses in Victoria’s drought-affected communities are getting the right support when they need it most. If we can turn to your general questionnaire, page 35 of the departmental questionnaire, it details a 13 per cent cut to the Rural Financial Counselling Service—as you know, diminishing this valuable service to small businesses in regional and rural communities who are doing it tough. Given the recent drought, can you advise the committee why the government has embarked on such a severe cut?

**Mr SOMYUREK:** Thanks, Ms Vallence, for your question. Can I just say, our sympathies go out to the drought-stricken farmers in East Gippsland—our hearts go out to them. Our sympathies go out to the drought-stricken farmers in South Gippsland.

**Ms VALLENCE:** So why was the fund cut, then?

**Mr SOMYUREK:** Can I say with respect to your question and the minister’s comments—last year I think it was—he was right. The Andrews Labor government believes any Victorian that is born and bred in regional Victoria and wants to remain living in regional Victoria should not have to migrate to metropolitan Melbourne simply to get a job, so what we are doing in this government is investing heavily in regional Victoria. The payroll tax rate cuts that I have just gone through in my answers to questions from Mr Richardson are a perfect case in point about how we are delivering to people in regional Victoria.

**Ms VALLENCE:** I am sure that payroll tax relief would be welcome, but really the question, Minister, was about the Rural Financial Counselling Service. We know that that has been so important for so many farmers and so many small businesses in drought-affected areas.

**The CHAIR:** Ms Vallence, I am incredibly proud that you have sought to quote me in a question to the current minister.

**Ms VALLENCE:** Thank you; you are taking up my time.

**The CHAIR:** However, as you would be aware, the program which you are talking about is not actually funded under the portfolio of small business.

**Ms VALLENCE:** Thanks, Chair, for that, but it is small business. Small businesses are impacted and you yourself are the predecessor, so I would rather you did not eat into our time.

**The CHAIR:** I will not be eating into your time as long as you ask questions that are relevant to the portfolio minister at the table, who does not have responsibility for programs which you are quoting.

**Ms VALLENCE:** Okay. So what we are hearing is that there has been a 13 per cent cut to those in drought-affected areas who are doing it tough.

**The CHAIR:** A portfolio that the minister is not responsible for.

**Mr SOMYUREK:** It is actually Ms Symes's portfolio, and I am receiving information that it actually has not been cut, so just check that. Are you sure it has been cut?

**Ms VALLENCE:** Yes. We are referring to your departmental questionnaire on page 35, so please refer to that. However, we will move on given the time. Minister, budget paper 3, page 233, details a 21 per cent cut to the industry, innovation and small business departmental objectives.

**Mr SOMYUREK:** Sorry, can I have the page reference again, please?

**Ms VALLENCE:** Yes, 233, budget paper 3. This budget details only \$153.5 million for all of these portfolios. How much of that now relates directly to your small business portfolio?

**Mr SOMYUREK:** Ms Vallence, we can be confident in saying this: with respect, as you have correctly pointed out, that is not all small business. Small business does get a mention.

**Ms VALLENCE:** That is right. Of that, what relates to small business?

**Mr SOMYUREK:** I am very confident that small business supports, small business programs are intact. What I would do is refer you to the output measures and the performance indicators. You will see there that the output measures and the performance indicators are actually the same as last time.

**Ms VALLENCE:** So what the question actually is, Minister, is: of \$153.5 million—it is a dollar amount—of the breakdown of that amount, what dollar amount goes to your portfolio of small business and how does this figure compare to previous years? We will have that on notice if we run out of time, but surely you would know for your portfolio how much money is in your portfolio from that line item.

**Mr SOMYUREK:** So are you asking for the cut in the small business portfolio?

**Ms VALLENCE:** No, the question was: that the total amount has been cut—

**Mr SOMYUREK:** Yes.

**Ms VALLENCE:** by 21 per cent in the past, now to \$153.5 million for all of those portfolio areas. Of small business, which is only one of those portfolio areas, how much of that \$153.5 million goes to small business?

**Mr SOMYUREK:** What I am saying to you is that the status quo remains, and our support—

**Ms VALLENCE:** So what is the dollar figure, then? If you know the status quo, what is the dollar figure?

**Mr SOMYUREK:** Our support programs and our assistance to small business remains steady.

**Ms VALLENCE:** What is the dollar figure, Minister? It is your portfolio. What is the dollar figure?

**Mr SOMYUREK:** I am happy for the department—

**Ms VALLENCE:** You do not know? Does not know.

**The CHAIR:** Unfortunately the department will not be able to answer because I am calling time on the portfolio.

**Ms VALLENCE:** Take that on notice, thank you.

**The CHAIR:** I wish to thank very much the minister and the officials for appearing before the committee today. The committee will follow up any questions taken on notice in writing, and responses will be required within 10 working days of the committee's request.

I declare this hearing over.

**Witnesses withdrew.**