

30 June 2020

COSBOA Communique

Avoiding the September 'Cliff' for SMEs

SYNOPSIS

COSBOA's COVID-19 Roundtable has been re-tasked to focus on the nature of specific initiatives that could aid economic recovery and support job creation from an SME perspective. The first of these re-tasked meetings was convened on Friday 22 May 2020 and successive meetings continue to canvass the nature of specific policy and legislative opportunities in this regard.

This latest roundtable meeting was held on **Friday, 26 June 2020**. The meeting included a discussion with Chris Lamont (NSW Small Business Commissioner) on issues impacting small business as we journey out of the COVID-19 downturn. The meeting was also attended by Sandra Parker (Fair Work Ombudsman) and Jeremy O'Sullivan (Chief Counsel, FWO) who participated in a conversation with roundtable participants on workforce issues, including difficulties associated with directing staff to work under the umbrella of the JobKeeper program.

Much of the discussion centred around the road towards the September 2020 cliff – the point at which much of the current assistance programmes for SMEs (both federal and state/territory) is scheduled to conclude. This discussion gave rise to the themes discussed below.

KEY THEMES

The following key themes were discussed at this latest meeting:

- 1. There is no merit in extending JobKeeper in situations where the business is unlikely to be able to successfully trade out of the COVID-19 downturn by the end of 2020. Government assistance for these businesses should ideally be directed at minimising the financial losses for the business owner and ensuring employees receive their termination entitlements.**
 - It is unrealistic to expect that all Australian SMEs will recover from the COVID-19 downturn. Credible research completed by the OECD suggests that around 20% of SMEs are likely to close as a result of the global economic downturn created by COVID-19
 - One of the unintended consequences of JobKeeper is that it has effectively allowed businesses to trade through the COVID-19 economic downturn (i.e. as a result of

funding the wage costs of the business) without requiring any substantive action on issues impacting business viability beyond September 2020. A significant proportion of small businesses are therefore facing the prospect of their post COVID-19 income not returning to a level that supports business viability in the foreseeable future.

- Within this context, there does not appear to be any merit in the continued expenditure of taxpayer funds to support small businesses that are unlikely to be viable by the end of 2020. Government assistance for these businesses would be better targeted at helping the business owner wind up their business, payout employee entitlements, and mitigate their personal financial losses as far as practicable.

2. There appears to be a significant opportunity for the Australian Government (and state/territory governments) to advance a new national program incorporating an SME triage mechanism to support SMEs on the road out of JobKeeper in terms of either: (a) continuing support for the achievement of near term viability, (b) business reinvention, or (c) business termination.

- A significant number of SME business owners currently participating in JobKeeper do not have the personal or in-house capability (or emotional energy) to objectively assess the prospects of their business trading beyond September 2020. These businesses are increasingly exposed to insolvency as a result of sub-optimal revenues, conclusion of special bankruptcy and insolvency protections, and deferred business loan and rent repayments
- SMEs that are unlikely to be a going concern beyond 30 September 2020 effectively have three options. The first is to continue to trade over the near term in the belief that they will shortly achieve **viability** (i.e. within 3 months). The second involves businesses that require reinvention (or reimagination) through restructuring and/or adoption of digital innovations to become viable, while the third option is business closure for those that are not likely to be viable any time soon.
- Given the challenges faced by small business in understanding their options, there would appear to be an opportunity for the Australian Government to introduce a program of SME business viability assessment. This program could be delivered under the umbrella of the existing JobKeeper program. Such a program would involve the provision of a small grant to SME JobKeeper businesses (i.e. \$5k-\$15k) for the conduct of a business options study. The findings of this study could then be used to direct business owners to existing government assistance mechanisms for SMEs, based on the outcome of the business options investigation (i.e. short-term viability, business reinvention, or business closure).
- It is envisaged that the program would take advantage of the existing consultative and cooperative mechanisms developed between all Australian governments and industry associations through COVID-19. The grants could be delivered via the existing relationships that exist between the JobKeeper participants and the Australian Taxation Office (ATO) while the business options studies could be delivered by utilising accountants, bookkeepers, tax agents and management consultants.

3. SME owners are reporting increasing IR difficulty in getting JobKeeper participants to return to work while member associations are reporting a sharp increase in post COVID-19 unfair dismissal claims.

- There is growing evidence of significant IR difficulties being experienced by SME owners as they reopen their businesses and ask staff on JobKeeper to return to work.
- Some industry bodies are reporting a three-fold increase in unfair dismissal cases lodged against their members.

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References

OECD 2020, *Coronavirus (COVID-19): SME Policy Responses*. Available online at [https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19 SME Policy Responses](https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses).