

30 April 2020

## **COSBOA Communiqué**

### **Business resumption challenges for SMEs**

#### **BACKGROUND**

COSBOA convened a meeting of the COVID-19 Roundtable by national teleconference on Friday, 24 April 2020. The meeting was attended by COSBOA member associations and other interested stakeholders, with attending associations representing an estimated 1M small and family businesses in aggregate.

The meeting was conducted against the backdrop of (a) growing national discussion about the opportunity to relax lockdown measures and associated social isolation restrictions in the near term, and (b) the first week of business registrations for the \$130B JobKeeper initiative. The following key issues were identified.

#### **CURRENT KEY ISSUES FOR SMEs**

##### **1. Funding the JobKeeper ‘cash gap’ remains a significant issue.**

- Small business owners continue to report significant issues associated with the April JobKeeper payments in advance of receipt of funds from the ATO. This has been a recurring theme in the last three roundtable meetings and businesses continue to report difficulties in securing ‘gap’ funding from Australian banks.
- A proportion of businesses have reported extreme difficulty in funding the cash gap which has been exacerbated by both (a) increased payrolls (on average by 40%) for across multiple industry sectors with significant numbers of casuals and part-time employees that normally earn less than \$1500 per fortnight, and (b) the requirement for March 2020 quarter superannuation payments to be completed by 27 April 2020.
- The CEO of the Australian Banking Association addressed the meeting and advised that the banks were aware of the issues being encountered and had recently implemented a series of steps to improve access to short term financing while still ensuring responsible lending practices were observed. These measures included:
  - Establishment of hotlines for SMEs, with a triage process for prioritising JobKeeper inquiries in the face of significant increases in customer call volumes
  - The flagging of JobKeeper finance requests for priority processing
  - Banks working co-operatively with the ATO in respect of data needed to expedite financial approvals.

**2. Growing challenges with well-being of business owners risk increased collateral damage to the national economy.**

- Participants noted the nature of the narrative about the financial damage to the national economy, coupled with an assessment of their own personal financial situation, was giving rise to increased concerns about the mental well-being of business owners. While a series of mental well-being initiatives were being put in place, most of these initiatives target employees, with very few of these initiatives providing targeted assistance to business owners.
- Failure to provide appropriate mental health support to SME owners risks increased collateral damage to Australia's 2.5M small business (and the 4 million Australians that they employ). It also signals that the mental state of many business owners is likely to be highly risk averse with respect to rebuilding their businesses once the health crisis is over – with consequent adverse impacts on economic output and employment within the SME sector.
- It was suggested that this issue would best be addressed by the pursuit of 'template legislation' – possibly along similar lines to that being pursued in Victoria – to promote consistency of commercial rent relief mechanisms across state/territory borders.

**3. IR concerns loom large for many small to medium business owners.**

- Small business owners continue to report significant challenges with the utilisation of the temporary IR provisions of the JobKeeper legislation, citing cases where staff are refusing to return to work and/or refusing reasonable directions to perform alternative tasks to their normal duties. This issue is being exacerbated by public statements by the ACTU and other unions who appear to be using the confusion surrounding the IR elements of JobKeeper as a mechanism for recruitment of members within the SME workforce.
- Participants noted that there are significant areas of IR uncertainty surrounding the implementation of key elements of the IR-related JobKeeper legislation and that these issues will only be resolved by court (i.e. Fair Work Commission) precedent.
- Participants reported that the above issues appear to be contributing to premature decisions of business owners to close their businesses with consequent loss of jobs.
- The above concerns suggest that there is a significant opportunity for IR reform in the near term to redress uncertainty for employers and employees alike, as well as using this opportunity to address longstanding IR constraints to increased workforce flexibility and productivity.

**4. Business owners will likely need to be coaxed out of business hibernation and/or 'low ebb' operations with policy initiatives that support the 'repair and rebuild' task.**

- Depleted cashflows, IR uncertainty and financial pressures (created by temporary financing arrangements and rent deferral) are likely to create a national SME environment dominated by risk averse behaviours. This suggests that SME economic activity is unlikely to simply 'snap back' to pre COVID-19 levels. This perception appears to be reinforced by a recent report by the OECD (see summary at

[https://mcusercontent.com/47a0f24f628e4b7ec96b2f720/files/a2b8c902-3aef-472b-841d-ced28c0f3a/COVID\\_19\\_SME\\_Policy\\_Responses\\_Updated\\_16032020.pdf](https://mcusercontent.com/47a0f24f628e4b7ec96b2f720/files/a2b8c902-3aef-472b-841d-ced28c0f3a/COVID_19_SME_Policy_Responses_Updated_16032020.pdf)

- It is clear that some existing policy measures (e.g. bankruptcy and insolvency protections, investment incentives, payroll tax deferral, and rent concessions) will likely have to extend well beyond the cessation of the primary health crisis if the damage to economic activity in the SME sector is to be minimised over time.
- New policy measures should also take account of the opportunity for both new business creation (i.e. business start-up incentives and support) and the reskilling of the SME workforce to capitalise on the opportunity to develop businesses that capitalise on the inherent strategic strengths of the Australian economy.
- Repair and rebuild incentives must be sufficiently granular to provide varying levels of assistance to specific SME sectors based on the degree of impact of the COVID-19 downturn and the likely duration of the recovery process (i.e. retail recovery will likely be much faster than recovery in hospitality which will likely be faster than recovery in the international tourism sector).

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