

COSBOA SMALL BUSINESS STRATEGY PAPER SUMMARY

Why did we write this paper?

Our primary ask is not fiscal. Rather, it is about the structural levers that the Government can pull to keep successful small businesses trading. There are three contextual factors informing this approach:

- **The risk of losing small businesses from community due to the pressures of two years of COVID**
- **The exhaustion of small business owners**
- **The increased inequity between big and small businesses.**

Risk of losing small businesses (and why small business counts)

The pressures of the pandemic may prove too much for many small business owners. Key issues include ongoing labour shortages, supply chain issues, the burden of deferred debt, workplace tension over mandatory vaccination, and rising insurance costs.

We must do our best to keep small businesses thriving in this challenging environment.

Small businesses employ 4.7 million people, or about 41% of the workforce. But they contribute to more than just the economy; small business people support local jobs, donate to community organisations like sport and schools, and bring culture and an irreplaceable uniqueness to an area. All this is lost when small businesses disappear - big businesses move in to take the place of small, creating homogenous shopping precincts, identical from one area to another.

Business Fatigue

As a result of the pandemic, many small business owners are more exhausted than ever. They've had to deal with lockdowns, navigating support applications, rising debt and costs, and complying with a host of new regulations to keep their employees and customers safe; all of which was largely out of their control.

Ongoing staff shortages have only amplified the need for small business owners to work "in" as well as "on" their businesses. The skin clinic owner is too busy giving facials to clients to devote energy to a cybersecurity risk analysis. The pharmacist is too busy filling scripts and answering questions about medications to dedicate a significant amount of time to negotiating a better deal on their merchant fees. The bookshop owner is too busy selling thrilling novels on the shop floor to focus on reading the Fair Work Act.

Inequity Between Big and Small Business

This is a key distinction between big business and small business, and COVID-19 has highlighted the inequity. Big businesses thrive on complexity because they have teams of experts to handle compliance;

there's the HR team to navigate workplace relations, the accounting team to navigate payroll, tax and super obligations, the IT department to fix any issues and manage cyber security threats, the social media team to work on PR and maintain their public image, etc... In a small business this is often done by a handful of people, or even just one person. We can't expect them to be experts in everything or afford to access the same level of expertise as big businesses have at their fingertips.

Many big businesses have emerged from the pandemic stronger than ever. An 'essential business,' Woolworths increased its profit by a staggering 78% in the 2020-2021 financial year. It successfully acquired PFD foods, with the Australian Competition and Consumer Commission (ACCC) unable to stop it under the current merger control regime. Similarly, the ACCC recently gave the green light for Wesfarmers to acquire the Priceline Pharmacy franchise.

Outgoing ACCC Chair, Rod Sims, highlighted the issue with Australia's merger control regime in an important speech to the Law Council in August 2021.¹ The regime is voluntary and skewed towards making the clearance of mergers the default. This must be reviewed in order to maintain a healthy competitive environment going forward.

The Pillars

The paper is based on following three pillars:

- **Streamlining regulation**
- **Targeted, needs-based support during post COVID growth**
- **Industry associations as a priority channel for business support.**

It addresses 16 key policy areas:

Better regulation, the digital economy, cyber security, workforce issues including immigration and visa workers, industrial relations and wages, payments and merchant fees, access to finance, education and training, tax and super, insurance, competition policy, health and preventative health, NBN infrastructure, energy, sustainability and waste management, and exporting of goods and services.

Why streamline regulation?

Small business owners are time poor but they all have a myriad of compliance burdens which they MUST adhere to in order to employ, to be licenced, to serve customers or to simply start. They don't have teams of experts at their disposal to navigate complex tax law, changing workplace health and safety, confusing industrial relations requirements, food/ product safety, local council laws... Regulation exists at every turn.

Often, the burden lies not with a piece of regulation itself – which is often reasonable and in the best interest of the public – but with onerous and bureaucratic compliance processes attached to it. Better consultation at the design phase of legislation is crucial to make it fit for purpose in the real world.

¹ Sims, Rod (2021), 'Protecting and promoting competition in Australia', Speech to the Law Council of Australia, <https://www.accc.gov.au/speech/protecting-and-promoting-competition-in-australia>.

COVID-19 created a whole new category of compliance. On top of existing compliance tasks, small business owners now have to manage vaccination mandates for staff and customers, compliance with mask mandates, isolation requirements, cleaning protocols, ensuring adequate ventilation, and the list goes on.

It's now more important than ever to simplify compliance processes to allow small business owners to focus on recovering from COVID-19.

What regulation should be streamlined?

COSBOA's overarching recommendation in this area is for the government to suspend the introduction of new compliance processes while small businesses recover from the pandemic.

Our paper makes several specific recommendations for how to reduce the regulatory burden faced by small business owners in the areas of tax, superannuation, industrial relations, immigration, and more. For example, we advocate for the simplification of the industrial relations system through a small business model schedule as well as reg tech and fin tech solutions to make compliance easier. We also advocate for the continuation of some regulatory reforms successfully introduced during COVID-19 to make it easier to do business from home – allowing electronic signatures on all documents, for example.

Our paper also makes recommendations for how to reform the approach taken by the public service when creating the compliance processes attached to new pieces of regulation – in other words, the *process* of creating processes. We advocate for more consultation with industry associations to be incorporated into the process creation method so that the compliance burden on small business owners can be properly assessed. We also advocate for the return of the Government's business consultation website. This website listed all government consultation requests relevant to businesses in one place but was taken down in 2021.

RECOMMENDATIONS

- **Suspend the creation of new compliance processes while small businesses recover from COVID-19**
- **Simplify the industrial relations system with a small business model schedule, as well as reg tech and fin tech solutions**
- **Continue COVID-19 deregulation measures such as allowing electronic signatures on all documents**
- **Better incorporate industry consultation when creating compliance processes for small businesses**
- **Re-instate the Government's business consultation website.**

Why use industry associations as a priority channel for business support?

Small business owners often identify with their industry or sector before they identify with the term 'small business' (for example, a hairdresser is a 'hairdresser' first and a 'small business owner' second; a bookkeeper is a 'bookkeeper' first and a 'small business owner' second).

So, if you want to catch the attention of small business owners, your best bet is to go through an industry association.

Industry associations have pre-existing relationships, networks, and communications channels that engage with thousands of small business owners. They know the peculiarities of the sector, have experience and expertise in the product or service, and know the regulation pertaining to it. As members of the 'tribe', industry associations leaders and staff are trusted purveyors of advice and information. They've run successful B2B programs, mentoring from the more experienced to those just starting, CPD training, and more recently, translated government support, requirements, and advice during the pandemic.

COVID-19 has further highlighted the value and strength of industry associations who bridged the gap between policy makers and small business owners, and who rose to the challenge of supporting, representing, and mentoring their small business members.

What does COSBOA recommend?

COSBOA recommends that any government programs designed to empower small business growth - for example by digitising, exporting, or improving energy use - should be delivered through existing industry associations.

A secondary recommendation is for the Government to use pre-existing pathways in general. Don't waste time and resources creating a new agency or a new website. Use the channels that small business owners are already familiar with.

RECOMMENDATIONS

- **Use industry associations to deliver programs designed to empower small business growth and provide small business advice**
- **Use pre-existing pathways.**

Examples of targeted, needs-based support during post COVID growth

The Digital Economy

COVID-19 has accelerated the digitisation of our economy as well as our reliance on technology in our daily lives. Small businesses subjected to lockdowns had to switch to websites, social media, and apps to engage with customers/clients and keep their businesses alive.

In our Strategy Paper we highlighted research commissioned by Xero and nbn showing that small businesses that take advantage of digital solutions outperform and are more resilient than those who don't, as well as research by the Australian Cyber Security Centre in which almost half of small business survey respondents rated their understanding of cyber security as 'average' or 'below average.'²

² Alphabeta, Xero (2019) 'Connecting Australia: How technology is levelling the playing field for small business,' Research commissioned by nbn, https://alphabeta.com/wp-content/uploads/2019/10/191031-connecting-australia_small-business_full-report.pdf; Australian Cyber Security Centre (2019), 'Results from the Australian Cyber Security Centre Small Business Survey', p 5. <https://www.cyber.gov.au/sites/default/files/2021-05/Cyber%20Security%20and%20Australian%20Small%20Businesses%20Survey%20Results%20-%202020201130.pdf>.

COSBOA has made suggestions for how to empower small business owners to use technology to grow their businesses and better participate in the digital economy. This includes a recommendation for an initiative that would increase the capability of small business owners and their staff to access the right information and respond to cyber security threats.

Workforce Shortages

One of the most pressing issues for small business owners in all industries and in all locations around Australia is staff shortages. It is crucial that this be addressed immediately.

The issue is complex and has multiple causes, both acute and chronic. These include but are not limited to pandemic border closures, the bureaucracy and cost required to sponsor a visa worker, lack of affordable housing in regional areas, and a lack of good pathways to connect employers and job seekers with the relevant skills.

COSBOA has provided suggestions for initiatives to alleviate this issue in the short and long term.

One short-term policy amendment requested was to relax the 20-hour per week working limit imposed on certain categories of visa workers such as international students in all industries for the next 2 years. We're very pleased and relieved that the Federal Government has removed the limit until April and will be advocating for it to continue.

Now, to continue to address worker shortages, the Government must explore other barriers which are restricting to skilled and unskilled workers from engaging with work. To encourage workers to engage with small businesses, we are seeking short term measures which address concerns around tax implications, reductions to pensions or family tax benefits, and higher tax rates.

Some of our long-term suggestions include initiatives to help bridge the gap between small business employers and job seekers with the relevant skills, as well as ensure that vocational education and training students graduate with the skills sought by small business employers. Again, small business consultation at the design phase of skills reform is crucial to make it fit for purpose in the real world.

Insurance

Insurance in Australia has been dysfunctional for many years.

In the last 18 months, premiums - even for those who have never made a claim - are on the rise. Increases are 30-40% for some industries; prices have doubled and tripled in others simply due to their location. This is a significant cost impediment on small businesses.

For example, public liability insurance is a major issue for small businesses in the leisure and amusement sector. Professional indemnity is an ongoing problem for consultants working on infrastructure projects. For some businesses where business insurance is a requirement to open their doors, they are unable to access insurance at all, forcing viable businesses to close.

COSBOA's submission recommends a government inquiry into the Australian insurance market, further funding for ASBFEO to continue its review into discretionary mutual funds (DMFs), and a national, standardised approach to worker's compensation insurance.

Competition Policy

A healthy competitive environment is essential for small businesses to grow, provide jobs, and contribute to community and culture. Small businesses are vulnerable to being exploited and overtaken by big businesses, monopolies, and duopolies. But, as ACCC Chair Rod Sims explained in his speech to the Law Council in August 2021, Australia's current merger control regime is voluntary and skewed towards making the clearance of mergers the default. In order to prevent a merger, the ACCC must prove to the Federal Court that future anti-competitive effects are 'likely.'

COSBOA's submission recommends that more resources be given to the ACCC and that the merger regime be reviewed with a view of basing it on international best practice (i.e. non-voluntary).

RECOMMENDATIONS

- Empower small business owners to use technology to grow their businesses
- Fund an initiative for small business owners to better respond to cyber security threats
- Relax the 20-hour working limit for certain visa holders for all industries for 2 years
- Address concerns around tax implications, reductions to pensions or family tax benefits, and higher tax rates
- Create initiatives to bridge the gap between small business employers and job seekers with relevant skills
- Ensure VET students graduate with relevant skills
- Run an inquiry into Australia's insurance market
- Give more resources to the ACCC
- Review Australia's merger regime in line with international best practice.



Case study: Anxious insurers get rid of flying fox at QLD caravan park

Trent and Tamara Stevens* own *Stevo's Lake View Holiday Park*, a caravan park in Queensland. In 2020, the business received its insurance renewal offer; despite the premium increasing, the cabins on the property would no longer be covered under the renewed offer. Trent searched for more options but ended up having to pay 120% more in premiums to only be covered for 80% if they need to make a claim. In order to get the premium down, they resorted to removing glass coverage from their policy – as the excess is normally more than a claim – but now their other insurance

policies will not cover damage to windows or glass, even by cyclones and other named storms. In a final blow, the caravan park was forced to remove its flying fox to get public liability insurance. The insurer wanted a staff member to supervise the flying fox at all times, but it just wasn't possible for this small business of only five people – two managers, two part-time cleaners, and one maintenance person.

*Names have been changed.