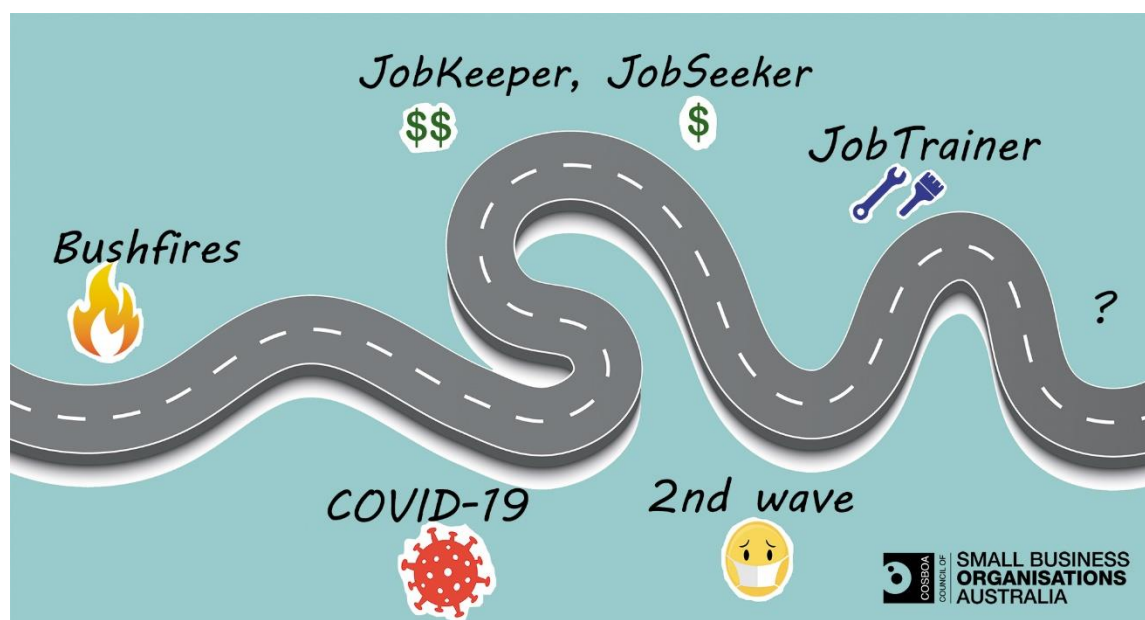


COVID-19 Business Recovery Council

The long and winding road to recovery through COVID-19



COSBOA Introduction

The Council of Small Business Organisations Australia (COSBOA) is the national peak body representing the interests of small business. Collectively, COSBOA's members represent an estimated 1.3 million of the 2.5 million small and family businesses that operate in Australia.

Small and medium sized enterprises (SMEs) are major contributors to the Australian economy. SMEs employ 68% of Australia's workforce. In GDP terms SMEs together contribute 56% of value added. For this reason, small and medium businesses will be *the* key partners with Government in re-building the Australian economy and re-employing hundreds of thousands of people.

COSBOA's weekly consultation with a core group of business representatives since March has focused on how to transition and support businesses that will continue to operate and those that will have to close. Each meeting is summarised in a [Communique](#), that tracks the progress and plight of small business across Australia as they rose to the considerable challenges of COVID-19. It raises the policy and practical problems being experienced by small business. This document is the synthesis of the consultation and brains trust of small business association leaders across Australia.

Business Resilience

The recent Stage 4 lockdowns of Victoria were a dramatic reminder that the road to recovery is long and winding. There is great ingenuity, innovation, resilience, and grit in the small business community. They employ over half the country's workers. Fire, drought, flood, COVID-19, and a global economic downturn means we need Australia's small business community, more than ever. Our local shop, or manufacturer, or service provider, are relied on to keep communities and economies healthy.

In tough times, local small businesses are rapid to respond and re-tool. They are imaginative and resourceful, but not even the best scenario planning could predict the economic shocks from COVID-19. Currently, it is vitally important that Governments lead and show the same resourcefulness that personifies the small business community.

The Council acknowledges the initiatives taken by Federal, State and Territory Governments to assist small businesses. JobKeeper has been extended for those most impacted to March 2021. Other initiatives, the expansion of the instant asset write-off, the JobMaker Hiring Credit, wage subsidies for apprentices and trainees, income tax cuts, tax loss carry back concessions that small business owners have never had access to before, funding for small business mental health programs, changes to insolvency and lending laws, as well as state based programs, have provided a raft of practical support that addresses both the needs of small business and the confidence of consumers.

Much work has been done by legislative drafters, with change being heralded by Fact sheets, legislation being passed by an accommodating Senate and Opposition and regulation being created "on-the-go." This has enabled rapid responses. There is a need to continue the flexible adaptive responses, if and when rapid drafting creates unintended and undesirable consequences. We have seen problems in the application of rules around cut-off dates for JobKeeper and Cashflow boost that have impacted thousands of businesses. These unintended consequences have not been addressed despite appeals, submissions, and petitions by many industry and associations representatives.

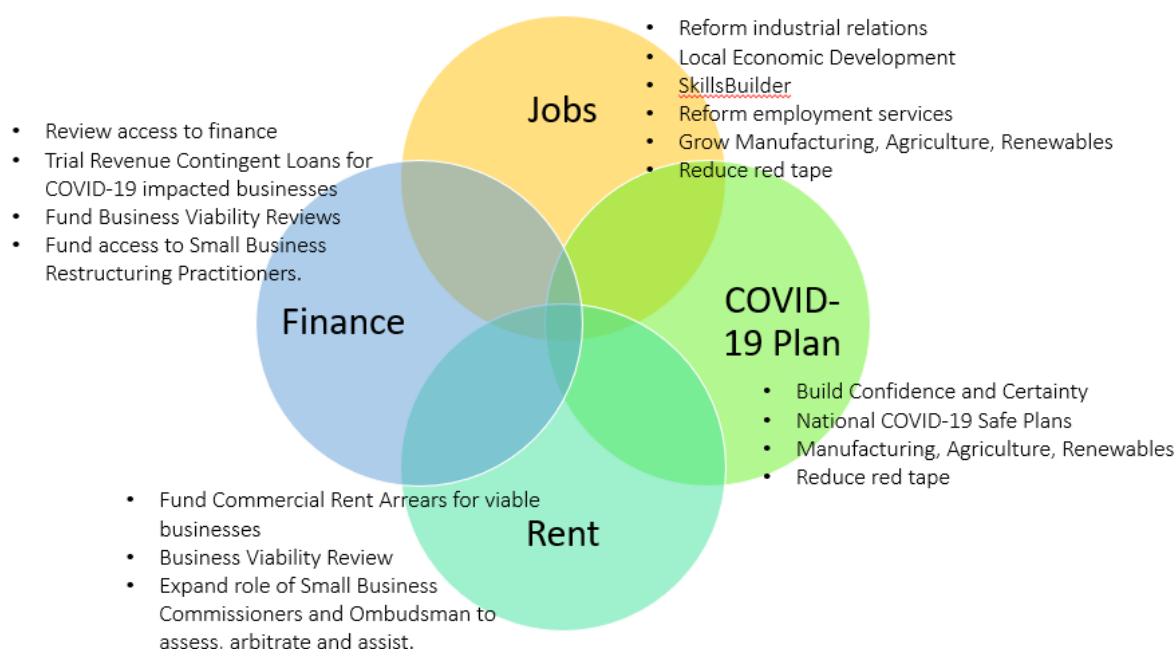
We acknowledge the impact on specific industry sectors. For example, women running businesses (40%) have confronted the lack of affordable and accessible childcare which is exacerbated when cash flow is reduced. This has not been addressed in the budget and remains a significant barrier for female entrepreneurs.

The arts, events and tourism sectors have sustained crippling reductions in revenue and viability with little good news as we return to “COVID-Normal” a place where mass gatherings, and international travel, sans vaccine, seem unlikely for some time to come.

Young people have been impacted significantly, and some regions, industries and communities will be hit harder than others. While JobMaker Hiring Credits may address job losses for younger workers, there may be unintended consequences on older workers. The rapid drafting and implementation without consideration of wider employment services reforms, may also negatively impact the lives and prospects of a growing number of unemployed and underemployed. While the initiative is welcomed, COSBOA believes there is more work to be done in reforms¹ that are overdue. [Read our submission here.](#)

There are major issues that are significant for small businesses;

1. Jobs Focus, including reforming Industrial Relations
2. Small Business Access to finance
3. Small Business Commercial lease relief
4. Continuing through COVID-19



Jobs Focus

The #1 priority must be the generation of work for those that are unemployed and underemployed. COSBOA has policy that advocates for;

1. Reform of the Job Active scheme to create better links between JobSeekers and employers, (submission link in footnote.)
2. Focuses on [Local Economic Development \(LED\) as a way for local communities to create the most appropriate opportunities](#)
3. Builds on a successful brand to expand it to create a LED brand [“Go Local First,” Grow local jobs.](#)
4. Focuses on [manufacturing, agriculture, and the green renewable sector as employment generators.](#)
5. Establish a national ethics framework to increase trust & reduce red tape.

¹ [Next generation Employment Services COSBOA Submission](#)

The Council identified local economic development support as essential to get the best return from government programs. New mechanisms need to be developed at the local and regional levels to enable government support be tuned and driven by local needs and knowledge.

COSBOA applauds the Government's efforts to intervene quickly to reduce the high levels of unemployment with the Job Maker Hiring Credit. In August 2020 COSBOA published its policy for a comprehensive, [post-COVID labour market program, called SkillsBuilder](#). This proposed wage subsidies for all unemployed people in receipt of income support, regardless of the duration of their unemployment. The proposal linked the subsidised employment of unemployed people to structured on-the-job training.

COSBOA believes that early intervention is vital to ensure those workers who have lost their jobs during the COVID-19 pandemic (regardless of their age) are re-employed as quickly as possible, in order to avoid the scarring effects of persistent unemployment. For this reason, COSBOA considers the Hiring Credit subsidy levels to be inadequate to address the current unemployment challenge. We also have the following concerns;

- lack of information regarding employee eligibility and the recruitment process. No agency is currently tasked with assisting employers to recruit suitable, eligible job seekers under the Hiring Credit scheme.
- Single Touch Payroll software, upon which the scheme depends, will not be ready in time for the 7 December registration date.
- great clarity from ATO required about ongoing eligibility issues relating to staff turnover. SME employers will always strive avoid breaking the eligibility rules. Confusion and uncertainty about eligibility will simply result in employers disengaging from the Hiring Credit scheme.

Reform [Industrial Relations](#).

COSBOA sees the recent Government initiated consultation process as positive. We, like many others, are waiting for the results. Our goal was to make it simpler and easier for small businesses to employ people. COVID-19 has smashed workplace assumptions, like working from home, and exposed antiquated work place regulations. There is still more to be done to make it easier for people to employ people, especially in small business. [COSBOA has supported a small business model schedule that provides simplified employment conditions in business with less than 40 full time staff.](#)

Commercial Lease relief

Many small businesses will be looking at re-structuring. Working from home and reduced turnover will see less need for commercial space. Landlords are also going to face difficulties if they evict tenants, only to find, there are no businesses prepared to take new leases for the space. Rent deferrals and relief have helped, but end in the next six months. Tenants will then face paying catch up rent, plus current rent, in circumstances where there is a high probability of reduced revenue.

The problem is exacerbated by the tension of interests between tenants, landlords, the local community, and economy. [Landlords](#) are, like small businesses, a diverse bunch. Landlords range from self-funded retirees reliant on the rent income to pay living expenses, to large multinational corporations, reliant on the rent to pay shareholders. What is the capacity and obligation of the landlord to absorb rental arrears? Who determines the viability and capacity of the business owner if they can't pay? And if public funds rent relief, via Government "white knights" then for how long and to whom and on what basis?

Funding commercial rental arrears when the case for viability is established

The State Based Small Business Commissioners and Ombudsmen need to be funded and tasked with being able to **assess, arbitrate and assist** when required. This may include Government funding arrears, where there is good business viability, and an unreasonable debt of commercial rent. The alternative is that good businesses will be forced out of business, through no fault of their own. Economic recovery will be faster if existing businesses can be maintained. This pragmatic approach is about not throwing the baby out with the bathwater.

Access to finance

Access to finance has been addressed with the Coronavirus SME Government Guaranteed Loan scheme, however this scheme remains under subscribed and the banks have experienced static or contracting commercial loans. Changes announced in October, have not yet had the time to take effect. Anecdotally, businesses are cautious about taking loans when revenues will be reduced or uncertain.

There needs to be more work done on how small business can access finance at a reasonable cost, that caters for these new normal of uncertainty. COSBOA has promoted [revenue contingent loans \(RCL\) as a new facility that could solve the problem of uncertainty.](#)

COSBOA has also recommended funding to business to enable them to conduct a viability review. This could become a gateway for commercial rent arrears relief, insolvency funding and reform funding.

Those with a negative result should qualify for funding to close, so that when the time comes, and economic circumstances have changed, they can reopen. Those that do have viable business may need a small amount of funding to enable them to implement changes to survive. It takes immense energy and resources to start a business, a small grant to enable them to reform and recover, is well spent.

The reforms to insolvency laws and the establishment of a small business restructuring practitioners is welcomed, pending the details of the regulation. This new tier of restructuring practitioners will still need to cover their costs. The challenge is how if small business has diminished resources? A Business Viability Review fund will help many small business people move through difficult decisions with dignity and support.

Business support, of the kind we recommend, is not new. In the early 1990's Treasury implemented the GST Start Up Assistance model. Under this scheme, the federal government allocated \$500 million to assist SMEs, community groups and education bodies prepare for the implementation of the GST. The funding included \$130 million to industry and professional organisations to run education campaigns. Ireland has also developed a [Business Continuity Voucher](#), with eligible businesses entitled to vouchers of 2500 euros that can be used for training or advisory support services. Tasmania also had its \$750 [Business Continuity Grants](#). We understand over 2000 grants were paid before it was shut early due to over demand.

It is critical to the success of the initiative that the Business Viability Review / advisory service be made available to as many small businesses as possible. Ideally more than 200,000 small businesses should get access to quality business advice quickly. This injection will inhibit much of the long-term pain we see when businesses do not close early enough. It is an extremely tough decision.

Delivery is best through existing frameworks and through proven and developed relationships of trust. A partnership between Government agencies and industry and professional associations would be ideal.

Continuing through COVID-19

Until a vaccine is available, or enough social immunity is acquired, living with COVID-19 is the new normal. Socially, economically and psychologically, it takes time and processing, to come to terms with a new situation. Especially a situation so at odds with our socially integrated, cohesive, and libertarian society. Small business has borne the brunt of health measures and associated economic impacts, especially in the arts, events, sports, tourism, travel, restaurants, and catering. But the impact is far from even across regions, demographics and industries. Some sectors have done well, vets, home improvements, hardware, book sales, at home health and exercise, (and perversely, baking!). There are early, encouraging signs, and acknowledgment from the RBA that the recession will not continue through 2021.²

Business Viability Review Support

It will take at least 18 months for the impacts of COVID-19 to filter through the systems, and many small businesses will take many years to recover. While support initiatives have been immediate and helpful, longer term support can be planned and strategically established, ahead of obvious needs as business reconcile their financial end of year reports through 2021 and beyond.

Government and Industry and Professional Association Partnership

Consulting through industry and professional organisations (who have sector specific experience) with Government support is an ideal, rapid solution. This avoids re-inventing the wheel. This can be linked with a mental health service tailored to small businesses (utilizing and coordinating already developed facilities and service delivery) that removes the personal stress business owners feel when they get in trouble. It will encourage them to reach out for support earlier and addresses the unnecessary stigma of failure that surrounds business closure.

Australian Bureau of Statistics (ABS) reports 60% of small businesses sought advice from, in order: their accountant, bank, lawyer and bookkeeper. The Government is last especially the ATO, even though we recognise the excellent work done there during COVID-19, the cultural dynamic is not appropriate. Those that participate and are found to be unviable, can be directed through to a Small Business Restructuring Practitioner, providing a dignified and organised exit and closure of the business.³ Details of the Business Viability Review at the end of this document.

Confidence and certainty

The road to recovery is a main street lined with thriving businesses built from consumer confidence. The ⁴ABS September 2020 Survey of Household Impacts of COVID-19 reports 21% of families with children reported a fall in household finances and 15% are saving more and reducing debt. About a third of those surveyed expected to decrease spending on public transport and eating out. Higher unemployment and underemployment exacerbate uncertainty and dampens consumer confidence which is critical to recovery.

COSBOA acknowledges a range of support initiatives that will assist business recover and build confidence. These need to be in association with health measures that are consistent, well-

² <https://www.afr.com/policy/economy/the-recession-is-over-rba-20201027-p5691s>

³ [COSBOA Submission RE Insolvency Reforms](#)

⁴ <https://www.abs.gov.au/statistics/people/people-and-communities/household-impacts-covid-19-survey/sep-2020>

communicated, and created collaboratively with businesses. We welcome the National Framework for Reopening and the work of the National Cabinet to co-ordinate a consistent response across jurisdiction to a virus that has no respect for borders or boundaries.

Small business is on the front-line of COVID pain and the recovery of small business will be crucial to the national economic recovery process. The impact of the COVID19 economic downturn has been hardest on small and family business in Australia, with 10 jobs lost for every job lost in big business. Strategies seeking to restore these jobs must therefore be central to the economic recovery process.

While much is being done to provide small business owners with the tools needed to build back their businesses at both Federal and State/Territory level, the economic downturn has drained the financial and emotional resources of small business owners. Consequently, confidence in the capacity of all Australian governments to repair the national economy will be crucial to the recovery process – both from the perspective of small business owners believing in their own capacity to rebuild their businesses and households believing that the risk of further substantial increases in unemployment is decreasing.

Failure to manage this ‘confidence equation’ risks sub-optimal utilisation of the economic repair measures being advanced by Australian Governments (e.g. the SME Loan Guarantee Scheme), with businesses refusing to reinvest in rebuilding their businesses because they perceive that wider economy is unlikely to recover in the foreseeable future (or stands a high risk of being closed down as a result of another COVID19 outbreak).

Business Viability Review

The provision of a Business Viability Review will need to be implemented in a manner that maximises access for SME owners and guards against the risks of sub-optimal usage of taxpayer funds and/or misuse of the system by unscrupulous providers. Accordingly, COSBOA proposes to jointly develop with the Federal Government assistance to small business in accordance with the following principles:

- a) Available to COVID impacted business participants only, with a view to providing them with a mechanism for transition away from reliance on Job Keeper post March 2021.
- b) The payment of funds would be made by the ATO in the same manner as JK payments are currently made (i.e. direct to eligible businesses) but would be dependent upon the submission of an invoice from an ‘accredited’ provider (e.g. accountant, bookkeeper, tax agent, business consultant, lawyers or business broker). Management of the validation of accredited providers could be achieved via utilisation of the accreditation systems already used by regulators such as the Tax Practitioners Board and relevant industry bodies.
- c) Payments to businesses would be made based on an appropriately rendered invoice – as opposed to having to make the payment first. This action recognises that many of these businesses will likely have scarce cashflow and will need to free up cash flow to keep their business operating through the assessment process.
- d) On businesses application a business opportunity assessment by an accredited provider can be conducted to a *maximum* value (e.g. between \$5k and \$20k) for the provision of professional assistance for the conduct of a business transition and early implementation of any strategy emerging from this assessment and assistance program.
- e) Marketing of the program to SME’s would be conducted by existing industry associations working in isolation or in partnership with other industry associations and/or service providers.

- f) The total cost of this program will vary according to percentage of businesses prepared to participate in the transition from JobKeeper. If 75% of JK businesses were to participate in the program, for example, the cost of this program would range between a low of \$5.85B (for a \$10k voucher) to \$11.7B (for a \$20k voucher). Estimated costs for other variations of this participation rate are shown below:

| JK Pool | % Participation | Total Participants | Voucher Value | | |
|------------|-----------------|--------------------|------------------|------------------|-------------------|
| | | | 10,000.00 | 15,000.00 | 20,000.00 |
| 780,000.00 | 85% | 663,000.00 | 6,630,000,000.00 | 9,945,000,000.00 | 13,260,000,000.00 |
| | 75% | 585,000.00 | 5,850,000,000.00 | 8,775,000,000.00 | 11,700,000,000.00 |
| | 60% | 468,000.00 | 4,680,000,000.00 | 7,020,000,000.00 | 9,360,000,000.00 |

Rationale

- Government does not want to continue to fund those on JK that do not need it
- Government does not want to continue to fund those on JK that are not viable
- Government does not want to abandon businesses that can survive and thrive
- This identifies and assists small business to transition
- The health impact of COVID-19 has been limited, at the cost of the economy, so there is an argument that this small business assistance is deserved as businesses complied – at their cost – to health restrictions.
- Assistance is cheaper than unpaid redundancies, court action, mental health issues etc.
- Assistance has an upside; it means viable business will continue to operate and become drivers of the economy into health.
- There are going to be too many businesses for any Government initiative to ramp up at the speed required to deliver assistance services. The alternative is to turn off the tap without support.
- Industry and Professional Associations have a proven track record of assisting their members, this would be open to all businesses. See reports.
- Consulting services can be delivered online, so are cost effective and accessible.

Note – this is aimed at SME small businesses.