

PRESS CLUB ADDRESS – Kate Carnell

29 July 2020

There has never been a tougher time to be in business.

Prolonged drought, a horror bushfire season and a global pandemic that is far from over – have contributed to the worst economic conditions we have seen since the Great Depression.

Just last week we heard Treasurer Josh Frydenberg forecast a peak unemployment rate of 9.25% in the December quarter. Along with that, came predictions of a record high deficit of \$86 billion dollars – that's projected to balloon to more than \$184 billion dollars in 2020/2021.

It's a mammoth debt to pay back and the only way to do it is to deliver economic growth by getting Australians back into work and increasing productivity.

So where will those jobs come from?

A recent NAB report found SMEs make up 99 per cent of all businesses. They employ two-thirds of all workers and produce half of all output. And 97% of businesses have less than 20 employees.

According to that report - In 2018, 76 per cent of new jobs came from SMEs.

To put it into perspective - if all Australian SMEs hired just one extra person, we would be at full employment.

The challenge for the government is to carve out a system that supports the small business sector to deliver the growth in jobs that is essential to our economic recovery.

But as the saying goes – if nothing changes, everything stays the same. In this case, the system needs to change to give small businesses the confidence they need to hire, grow and prosper – particularly in the midst of this pandemic, which is putting small businesses – many of which were strong and viable just a few months ago – in a world of pain.

Broadly speaking the major expenses for small businesses are rent, wages and loans. The Federal Government has worked to great effect with National Cabinet and the banks to cushion the blow on all of these fronts. Make no mistake, these measures – including everything from JobKeeper to the Mandatory Tenancy Code of Conduct to the six month loan repayment holidays – have made a huge difference. They have been an absolute lifeline for many small businesses.

But now the conversation needs to move on from those survival measures, to how we get these businesses thriving and hiring again and the economy back to full health.

(PAUSE)

38% of small businesses are owned and operated by women and that number continues to grow.

Many are mothers who rely on childcare as they work tirelessly to get their business back on its feet.

For those that are living on JobKeeper, they won't be able to afford the reinstated childcare fees and that could force parents – mothers more often than not – out of their jobs. That's detrimental to their business and even worse for the economy.

In my view, childcare is an essential service for parents in small business and it needs to be affordable.

Recent ABS labour force data shows women have been among the hardest hit by the pandemic, with the female participation rate falling dramatically.

Right now, the government should be considering innovative ways to increase the female participation rate. This would ensure productivity gains and help owners in their efforts to get their businesses back on track.

There are a number of ways the government can do this, including making childcare tax-effective or by phasing in an expanded subsidy scheme, which the Grattan Institute estimates would deliver an \$11 billion dollar economic boost.

Economists have long referred to the double dividend of childcare increasing workforce participation rates and providing early education.

(PAUSE)

The key to restarting the economy is to get people back to work and re-building confidence.

It's easy to talk about this issue with statistics – they certainly exist – but it's also important to remember that small businesses aren't just another number.

They are real people, with their own story to tell.

I want to take this opportunity to paint a picture that shows you what a small business really looks like and the daily challenges they face. It's a good way to show you what needs to change and why.

Let's start by acknowledging the fact that some of the greatest contributors to the Australian business community are migrants. About a third of small businesses in Australia are migrant owned.

Danilo - was visiting Australia from Brazil on a six month student visa – when he decided his dream was to one day own his own café in Sydney. It took him five years before he had the funds and the confidence to open his cafe. It was more than just a business – it was his life. It was where he met the woman he's now married to. Their wedding reception was held there. The café was part of the community. Mothers groups gathered there, he would supply coffee to local school fetes and supported local sporting teams and other charity fundraisers. He knew his regular customers by name and their coffee order. Danilo employed 20 staff, mostly casuals and he, like other small business owners – particularly those in hospitality – faced the challenge of navigating Australia's complex regulatory system. He spent hours getting his head around the different awards, pay rates, AH&S and complying with taxation and other obligations. There was no HR department. No payroll person. He was in charge of everything. Those duties were always there – even on his honeymoon and family holidays.

Danilo isn't alone. His experience is representative of thousands of small businesses.

The Fair Work Act has 960 sections and over a quarter of a million words. On top of this, Australia has more than 100 industry awards, with hundreds more classifications within those awards.

Newly released NAB research shows business owners are spending up to 18 hours on compliance before hiring their first employee.

We have seen plenty of big businesses, with large HR and payroll departments struggle to comply. It's nearly impossible for small businesses who really want to do the right thing.

So put yourself in the position of a migrant small business owner, who has adopted English as a second language...

The point is – if nothing changes, small businesses that want to grow their business or start a new venture, simply will not.

So what are some of the things that would have made life easier for Danilo or for any small business owner attempting to navigate this overly complex system?

Simplify it. Introduce a Small Business Award.

The Prime Minister was absolutely right just a couple of months ago, when he stood where I am standing today and said the current industrial relations system is not fit for purpose.

In this new world we live in, with business confidence at historical lows, the system needs to make it much easier for small business employers to be able to hire and manage staff, so they can get on with the job of running their business.

A Small Business Award would be simpler than existing awards and available to all small businesses on an 'opt in' basis. It would cover all staff, irrespective of their different duties and would include a 'permaflexi' classification.

Flexibility is key for small businesses. I was encouraged by the Treasurer's comments last week that additional flexibilities allowing the employer to change duties, change hours and to change the location of staff, should be continued. Right now, in the midst of COVID, small businesses are facing enormous challenges and uncertainty. If they don't have flexibility and confidence in the system, they won't employ.

(PAUSE)

There are solutions to small business problems, such as those that Danilo experienced, that don't require legislation.

Regtech translates complex legislation into easy to use solutions.

So how would it work in practice?

Imagine if a small business owner had technology at his or her fingertips that by putting in basic details such as the employee's age and hours worked – could instantaneously provide the employer with the correct wages and entitlements owed?

The good news is that the technology actually exists already. The Fair Work Ombudsman just needs to accredit regtech solutions for this purpose.

The government has a golden opportunity here to modernise their systems to cut red tape.

It's meaningful changes like this that are going to give the small business community the confidence they need to start hiring again.

(PAUSE)

A sure fire way to get small businesses looking for additional staff is by giving them work.

However, the government's procurement process is fundamentally flawed and it needs to undergo serious cultural change to support the creation of jobs in the small business sector.

In 2018/19 close to 80,000 contracts were published on AusTender at a combined value of \$64 billion dollars. Just 26% of those Commonwealth Government contracts were awarded to SMEs. That's despite the fact that 94% of those contracts were valued at under \$1 million dollars and well over half were worth less than \$80,000 dollars.

It is clear small businesses should get a larger slice of that pie.

But small businesses often don't get a look in because the first step of the procurement process requires the business to be on a panel. This can be an extraordinarily costly and onerous exercise and certainly doesn't provide any guarantees.

The culture of risk-averse Government departments handing contracts to big businesses needs to be a thing of the past.

The best way to do this would be to establish a small business procurement panel to manage any Commonwealth Government contracts valued up to \$10 million dollars.

In fact, if an Australian SME misses out on a contract, it should be up to the Government Department to explain why.

One of the reasons for this is to develop a strong middle-sized business sector in Australia, which is fundamental to growth. We should model this on the success of the German Mittelstand.

Remember lowest cost does not always represent the best value for money. I would argue strongly that prioritising Australian small businesses pay dividends to the entire economy.

(PAUSE)

Cash flow is king for small business.

The single biggest cause of insolvency among small businesses is a lack of cash flow.

Unfortunately we have seen a recent surge in big businesses using the COVID-19 crisis as an excuse to push out or even suspend payments to small businesses. That is completely unacceptable.

A few of the big companies have done the right thing here – Rio Tinto and Telstra – reduced their payment times significantly earlier this year.

The Government too – both Federal and some of the states – have made much progress in cutting their payment times to 30 days or less. E-invoicing can reduce payment times even further.

The problem is that too many large businesses are still engaging in poor payment practices. CIMIC, Myer and David Jones are among those companies with payment policies that are damaging to their small business suppliers.

Late payments by large businesses to small businesses account for just over half of all invoices. That's \$115 billion dollars paid late to small businesses – the equivalent of \$7 billion dollars in working capital to Australian small businesses every year, according to data from Xero.

That's why I am reiterating my call for federal legislation requiring small businesses to be paid in 30 days. It's the only way to drive meaningful cultural change in business payment performance across the economy.

The economic case for faster payment times is clear, not just in Australia but internationally. When the Obama administration moved to 15 day payments times, a Harvard Business School study found that created 75,000 jobs and delivered an additional \$6 billion dollars to US workers' pay packets.

(PAUSE)

We know small businesses are doing it very tough right now. The COVID crisis has driven many small businesses to the brink and the reality is some won't survive.

Our Insolvency Practices Inquiry found the system needs to change dramatically to allow the small businesses that are not going to make it, the chance to wrap things up quickly, affordably and with dignity.

More importantly it's critical that the struggling small businesses get access to the professional advice they need now so they can make an informed decision about whether to turn their business around or to exit.

That's why today I am calling on the government to establish a small business viability voucher program, where a small business owner facing financial stress can obtain a voucher valued up to \$5,000 to access advice from an accredited professional.

A tailored financial plan is critical for small businesses to survive, grow and employ.

(PAUSE)

When we talk about small business survival in this crisis, we need to talk about mental health.

These are real people who are carrying the weight of the world on their shoulders right now.

Small and family businesses may be so consumed by getting their operations back up and running, they may not be aware that it is actually causing them high levels of psychological distress.

To any small business owner who is listening today, I urge you to visit the My Business Health web portal on our ASBFEO website. It has practical tips around running your business, but we've also worked closely with leading mental health organisations like Beyond Blue and there are a number of dedicated resources you can access for free as well.

Please reach out and get the support you need. Don't suffer alone. Your business relies on you and you need to be healthy to run and grow your business.

(PAUSE)

I just want to finish by saying that on our path to economic recovery, trade-offs will need to be made but ultimately by putting a framework in place to build essential support for Australia's small business community, we can get through this and ensure a future that all Australians can be proud of.

