

**Notes from the
SMALL BUSINESS SUMMIT ON THE GLOBAL FINANCIAL CRISIS
Friday 24th October, 2008
Mr Kevin Rudd MP
Dr Craig Emerson MP
Mr Wayne Swan MP**

Welcome by

RICHARD BROOKS – Council of Small Business Operations of Australia (COSBOA)

Over 500 people are in attendance for this summit. The small business sector is comprised of over 2 million companies within Australia. A key characteristic of small business is that as operators in this sector, we *act and think like individuals* in our decision making practices. Government policy should recognise this when implementing assistance packages. With today's summit COSBOA is seeking commitment from the government to develop and implement policy to make business dealings easier. I also encourage businesses to join industry associations for support and information sharing to assist weathering the current economic turbulence.



MR KEVIN RUDD, MP

The purpose of today's summit is to provide information and receive feedback about Government and small business working together to protect the economic future of Australia. Compared to other nations, Australia's economy is in relatively strong shape; however to minimise damage we need to be prepared for future challenges that will present in the upcoming months.

- How did this begin?
A mortgage crisis in the US.
- Why is Australia's position relatively strong?
 - We have one of the best regulated banking systems in the world. It was recently ranked equal second in a global ranking on the basis of sound lending practices and stability.
 - The Treasury, RBA, ASIC – strong national institutions governing regulations to ensure stability.
 - The world has 12AA rated banks, four of which are Australia's top banking institutions.
 - The RBA reduced interest rates by 100 points which the banks passed onto customers almost in full immediately.
 - The Governments' budget surplus is a buffer for ensuring economic stability.
- Australia needs to maintain positive economic growth to protect the stability of the economy. This requires:
 - Financial stability of the banking sector.
 - Continued access to credit.
 - Stimulation of the economy and consumer confidence.
- The response from the government to address these issues has been:
 - Government guarantee of banking deposits.
 - \$10.4 billion stimulus package announced.

- \$10.4 billion stimulus package focuses on households and consumer confidence;
 - Increasing first home owners grants to fuel the housing sector.
 - Strengthening lines of credit to increase consumer demand.
 - Additional payments to struggling households (ie. pensioners, low and middle income families); relaxing burden and increasing confidence.
 - New training placements (job security, investment in human capital).
 - Future agenda on infrastructure development throughout Australia to stimulate growth; roads, rails, ports, education and health facilities.

- Government contracts;
 - 30 day payment, if this is not followed your business can charge the government interest for late payments.
 - Leading by example to encourage other businesses to pay on time.
 - Standardise procurement documents for Government contracts to save time and money.

- On the international scene:
 - To maintain strength we need to coordinate Australia's fiscal policy with the global financial system (respectful of liquidity and regulation).
 - Australia is a participant in the G20 Summit in Washington (November 15th).

- Australia's small business generates $\frac{1}{3}$ GDP. $\frac{2}{3}$ small businesses have their family home as guarantee for business loans. We need to ensure small business has room for growth through maintaining cash flow and access to credit.
 - Tax office – looking into paying off tax debts in instalments.
 - \$4 million spent on business enterprise centres (advisory service with information sharing for small business about what help is available from government).

IN SUMMARY

- Need to ensure positive economic growth.
- Government guarantees on bank deposits; ensuring access to credit.
- Step 1 – October 2008; \$10.4 billion surplus package.
- Step 2 – December 2008; Rollout of national infrastructure 'Build Australia Program' (roads, hospitals, ports, etc).

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QUESTIONS TO THE PANEL OF PRESENTERS

Question 1:

The cost of doing business has increased, what are the banks doing to improve capacity to access credit?

- We assure that banks will continue lending to all sectors. Australia's banks are well managed and regulated and responsible lending will be maintained. Effectively it is business as usual.
- Response from NAB representative;
 - Small business is the heart of NAB banking. Bank success = customer success.
 - Business confidence is currently at an all time low (since measuring began in 1990). Business lending has reduced by 20 basis points.
 - Level of credit in the system has dropped from 16-18% growth to 8-10% growth, reflecting the drop in demand for credit (reduced demand for investment).
 - As international wholesale markets stabilise we should see further interest rate decreases.

- Government's guarantee of deposits was a very positive move.
- Recommends facing reality and make plans for the future.
- At 20-20 summit NAB announced \$100 million commitment to microfinance in Australia as a means to start building businesses. Since this announcement NAB has made 110 investments in micro-business.

Question 2:

GST responsibilities? Payment of penalties accrued in hard times? Help for business located in lower income areas where spending is lower? Tax deductions of legitimate business 'lunch/networking' expenses? Trainlink to Redcliffe?

- *BAS Easy* program focused on reducing time spent on paperwork. Attempting to make obligation calculations easier.
- Penalties – promise from Wayne Swan to look into this concept.
- With respect to income disparity;
 - The income tax cuts on as at June 30th were directed at low/middle income households.
 - The 'stimulus package' is also aimed to help households reliant on family tax benefits and pensions. This hopes to help balance customer spending in those areas, especially in the lead up to Christmas when people have a higher propensity to spend.
 - Next year we can expect interest rates to decrease again which will help families with mortgages.
- No plans to legitimise tax deductions for identified expenses.
- Redcliffe link - infrastructure plans to be outlined in December 2008 – process involved State Government submissions to Federal Government for national assessment.

Question 3:

Portability of finance – the process is time consuming and costly!

- New policy approach is required due to the current economic environment as the financial sector has its' structures and processes challenged.
- November 2008 should outline new policy aimed to make switching between financial institutions (refinancing) easier.

Question 4:

Definition of and operating dynamics for small business differ; 1-5 staff VS 50-100 staff. Direct fixed costs such as rent, council rates etc. have major impact on small business. Credit and cash flow is essential to ensure stability.

- Recognise growth progression from micro business – small business – big business. Budget invested \$42 million in business advisory centres to support this growth structure.

Question 5:

Direct benefits to small business (reducing operating costs) VS Advisory services. Due to the uncharted waters faced in the economy now, mentoring would appear to be not as useful as spending money to directly help reducing costs?

- Government attempting to aid by setting good invoice paying practices (role models), and making government contracts easier to access for small business.
- Attempt to directly impact business through stimulating the economy. The package is designed to have an immediate impact on the building sector.
- Most developed countries are currently going into recessions; Australia is well positioned and attempting to maintain growth.

Question 6:

Incentives for providing opportunities for retrenched workers? Increased tax savings for investment in R&D (leading to further economic growth)?

- Surplus package provides for 56,000 training places in 2008/2009 – incentives for completion of Certificate II, Certificate III and Certificate IV qualifications. Investment in human capital.
- New enterprise incentive scheme to target long term unemployed.
- Cutler Review into R&D being investigated currently, an option outlined in this review is to revert portions of R&D investment into tax credits.

Question 7:

Childcare rebate – possibility of payments to be made weekly not quarterly to increase cash flow?

- Rebates have just been increased from 30% to 50%, and previously were up to 2 years in arrears. The Government have now made these payments up to date and brought the payment schedule to quarterly. Unlikely to be made weekly.

Question 8:

Venture capital – Super funds have decreased cash injections to venture capital, leading to reduced R&D spending in universities etc. What is being done to address this?

- Due to current environment it is likely that high risk investments will dry up first.
- Government short term plans to stimulate growth, long term to maintain productivity through education and training investment.
- The Cutler Review has highlighted the important role played by small business in innovation. This innovation is not solely from manufacturing, but approximately $\frac{3}{4}$ comes from value adding in the service sector.

Question 9:

Companies divesting of assets sustaining capital loss which can only be offset by capital gains, affecting cash balance.

- Tax system is currently being reviewed specifically with respect to the tax impact on growth.

Question 10:

Rural areas – drive for skilled labour lead to overseas recruitment and migration, candidates are ready to learn and work – can the Government relax VISA language test requirements? GST issues with raw/produced materials? Increased cost of pulses and grains but limited availability?

- Australia's immigration program is never going to suit everyone, but it is very flexible and tailored to suit the needs of different areas. Due to the current environment various regulations may be adjusted.
- GST – cash flow and timing issues are being reviewed.
- Pulses/Grains – growth in Asia, specifically China, has increased the demand for meat and thereby grain prices have increased. There is little the Australian Government can do in the face of international economic forces such as these.

Question 11:

Price of petrol; as oil prices increase the cost of fuel immediately goes up. When the price of oil comes down the reaction of companies is about a week late. This has a direct impact on all business and consumers.

- We operate in a market economy so cannot regulate oil companies.
- Fuel Watch Policy is currently getting blocked in the Senate. This concept has information shared each morning about the location of the cheapest fuel. The aim of this policy is to give customers

competitive policy power over oil companies. The nett impact over time is a reduction of about 2 cents per litre.

Question 12:

Not all financial institutions are covered by the government guarantee; will this not result in people shifting their money from institutions not covered to those that are and creating an ideology of 'safe' and 'unsafe' banks?

- Banks, building societies and credit unions are the foundation of our financial system.
- Term wholesale funding arrangements by banks are guaranteed, the purpose is to fight off the global credit strike.
- May not cover everything but it is better to have made this guarantee than to not have made it.
- This unprecedented environment means the government will likely have to take unprecedented actions in the future to ensure priorities of stability and economic growth are maintained.

Question 13:

Disabled people and carers; the level of bureaucratic paper required to justify QA action is excessive and unsustainable.

- A recent review of Commonwealth and State regulations with their conflicting requirements, especially if operating in different states, has revealed what a nightmare this is. This is on the agenda to address in the immediate future.

IN SUMMARY

- The Government's Aims are to:
 - Decrease compliance burdens.
 - Invest in infrastructure.
 - Invest in human capital.
- There will be consequences for a while to come.
- Government's role is to provide a basis for confidence in the future.