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SUPPORTING ECONOMIC RECOVERY **WHAT WE CAN DO FOR SMALL BUSINESS**

July 2020

This report has been commissioned by National Australia Bank and prepared by AlphaBeta Australia (part of Accenture).

COVID-19 is having a significant impact on the Australian economy and small business in particular. NAB welcomes the significant and effective action that governments have taken to manage the unprecedented health and economic crisis caused by COVID-19. Measures such as the Federal Government's Coronavirus SME Guarantee Scheme and expansion of the instant asset write-off scheme have been critical to supporting small businesses. In addition to this short-term support for recovery, small businesses also need support to achieve long-term growth in order to kick start Australia's economy.

NAB, Australia's leading business bank, has commissioned this report to generate practical ideas and encourage action to support long-term growth for small business.

AlphaBeta Australia is a strategy and economics firm with offices in Sydney, Canberra and Melbourne. AlphaBeta Australia specialises in combining advanced analytical techniques and innovative data to generate new insights and fresh perspectives on the challenges facing business and government.

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INTRODUCTION

The importance of small and medium enterprises (SMEs) to a healthy Australian economy cannot be overstated.

They make up 99% of the economy and employ two in every three Australian workers. As they grow, so too does the economy, employment and access to new and diverse marketplaces. Their survival, success and continued growth is critical to every one of us.

SMEs across Australia can be held back by unnecessary burdens that prevent them from spending time on things that can help grow their business. This research sets out, in very simple terms, some suggested solutions to these problems.

Easing the burden of regulation, ensuring big businesses pay their smaller suppliers promptly, and helping SMEs adopt more digital tools that can make them more efficient and competitive are just some of the ways we can boost SMEs in this country.

NAB believes large businesses and governments can lead the way in creating a more level playing field for Australian SMEs by taking urgent action in the areas that matter most. Through ongoing cooperation and coordination across all parts of the economy, Australian SMEs will make an even more meaningful contribution to our nation's future prosperity.

Small businesses were already facing tough conditions before COVID-19.

The significant impact that COVID-19 has had on the Australian economy has made things even more challenging. Consumption spending has fallen rapidly, particularly in sectors most heavily affected by enforced shutdowns, such as accommodation and food services (down 56% since the start of 2020). This has seen payment inflows into NAB merchants also slow, again with accommodation and food service industries most affected.

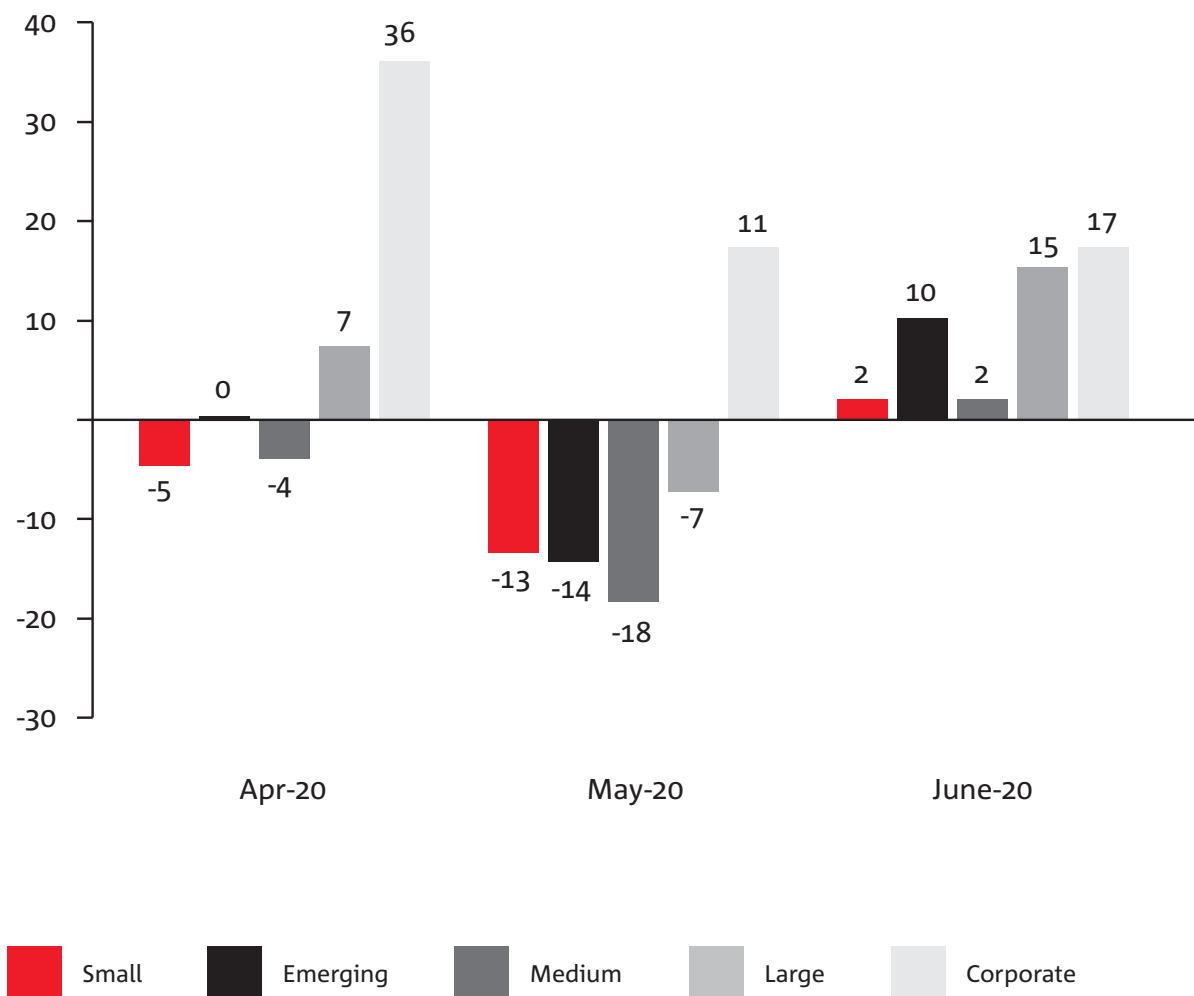
Emerging, small and medium businesses have been most impacted by this slowdown in payment inflows. Small and medium businesses suffered an early hit, dropping around 4% in April. By May, emerging, small and medium businesses had seen falls of between 16-26%, higher than large businesses (which fell by 15%) and corporates, which continued to see payment inflow growth.

After two years of weaker business conditions, and a significant deterioration as a result of COVID-19, small businesses are in urgent need of support to recover and grow into the future.

Given the importance of small businesses to the Australian economy, this support is essential to kick start the economy.

COVID-19 HAS HAD A SIGNIFICANT IMPACT ON EMERGING, SMALL AND MEDIUM BUSINESSES, WITH LARGE FALLS IN PAYMENT INFLOWS OVER THE LAST THREE MONTHS (%)

Payment inflows into NAB merchants, by business size



SMALL AND MEDIUM-SIZED BUSINESSES MAKE UP 99% OF ALL BUSINESSES, EMPLOY TWO-THIRDS OF ALL WORKERS AND PRODUCE HALF OF ALL OUTPUT



Businesses

99%

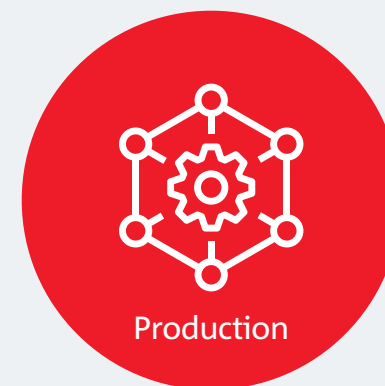
of all Australian businesses
(2.1¹ million) are SMEs



Jobs

2 IN 3

of Australian jobs and 76% of
all new jobs in 2018 in SMEs²



Production

56%

of total production
(\$2tn in income) from SMEs

Definitions: Small firms have fewer than 20 workers while medium-sized firms have between 20 and 200 workers. For simplicity, this report uses the terms “small business” and “small and medium enterprises” interchangeably unless specified.

The contribution of SMEs varies by sector. Over half of small businesses operate in construction, professional services, hospitality, retail trade or health. 8 in 10 workers in the first three of these sectors are employed by small business. Small business is even more dominant in agriculture and real estate, responsible for over 90% of all employment.

¹ Excluding self-managed superannuation funds.

² There were approximately 11 million jobs in the Australian economy in 2018, with approximately 330,000 new jobs created that year.

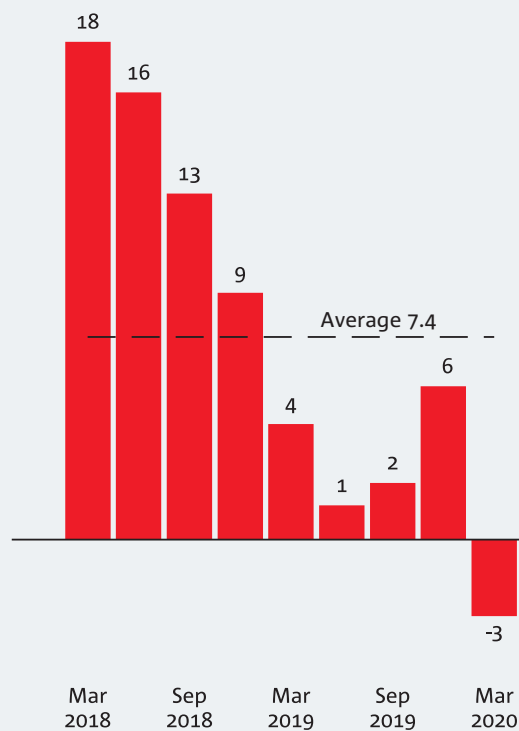
Source: ABS 8165, ABS 8155, ATO, AlphaBeta analysis

SMALL AND MICRO BUSINESSES HAVE CONSISTENTLY FACED WEAKER BUSINESS CONDITIONS OVER THE LAST TWO YEARS

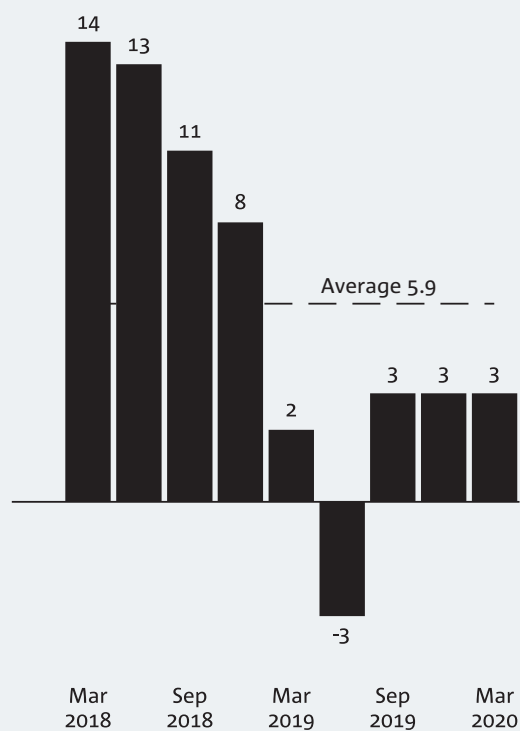
Business conditions

NAB business conditions, 2018-2020

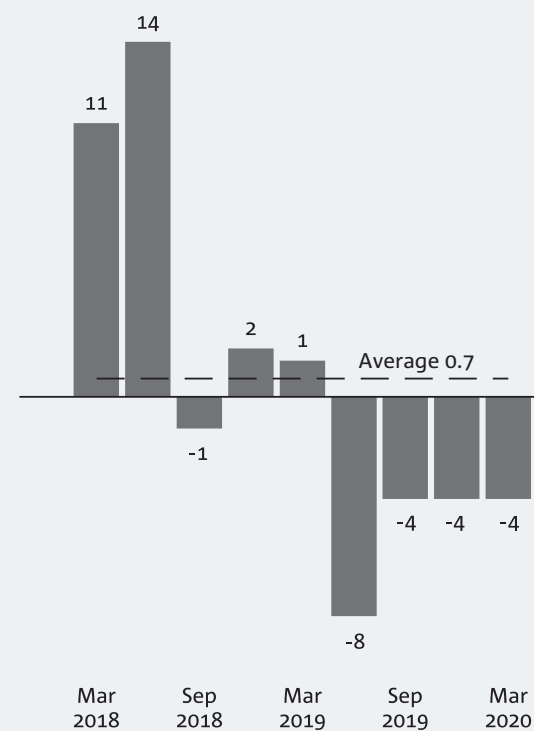
ALL BUSINESSES



SMALL BUSINESSES



MICRO BUSINESSES



Note: "All businesses" reflects the NAB Business Conditions index. "Small business" reflects NAB SME business conditions where small businesses are less than \$10m revenue; "Micro businesses" are \$2-3m revenue. Averages are for quarters March 2018 to March 2020.

Source: NAB, AlphaBeta

KEY FINDINGS

GOVERNMENTS AND BIG BUSINESSES LIKE NAB CAN SUPPORT AUSTRALIAN SMALL BUSINESS RECOVERY AND GROWTH THROUGH **EIGHT KEY ACTIONS:**

- 1 Making it easier to hire new workers
- 2 Cutting regulation
- 3 Making sure small businesses get paid faster
- 4 Harnessing the power of digital tools
- 5 Opening procurement opportunities
- 6 Further access to capital
- 7 Lifting small business management capability
- 8 Improving state business conditions

1. Making it easier to hire new workers

Regulation is making it harder for small business to hire workers

- Small businesses often don't have the systems and processes required to deal with the regulatory and compliance burden of employing workers.
- A small business hiring its first worker can spend up to 18 hours understanding awards and pay rates and complying with taxation, award, OH&S and record-keeping obligations.

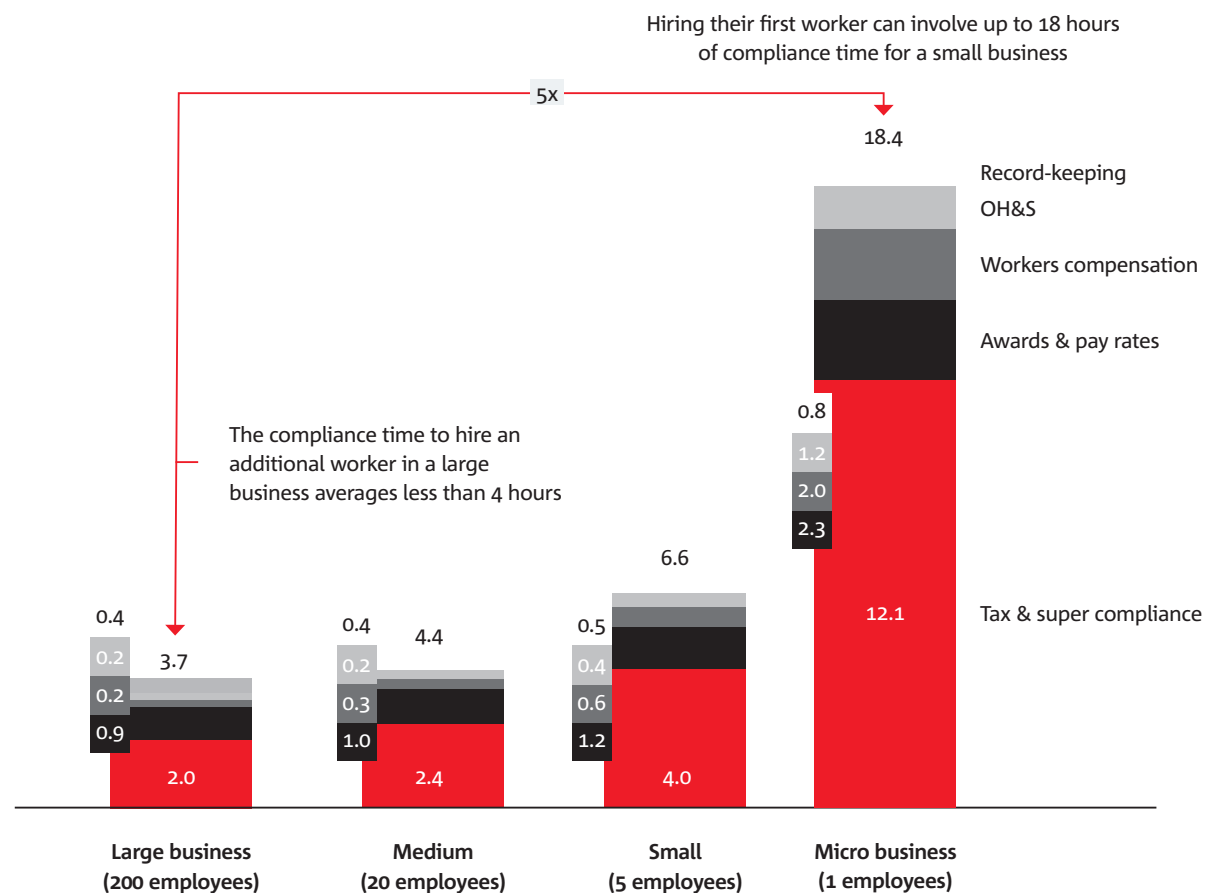
Cutting red tape and providing support could make it easier for small business to hire workers

- The Government's recently announced working group on award simplification should seek to identify areas where simplification would make it easier to hire workers and ensure they are paid accurately.
- The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) has recommended the government develop an algorithm to be integrated into accounting software to make it easier for small businesses to pay wages and entitlements correctly and on time.
- The government has committed to developing a prototype 'regtech' platform, creating an important one-stop portal for hiring workers. In the short term, Government could assist by providing guidance on existing reg-tech solutions to give small businesses confidence to use the right existing solutions.

THE COST OF HIRING A WORKER IS 5 TIMES HIGHER FOR THE FIRST EMPLOYEE OF A SMALL BUSINESS THAN FOR A LARGE BUSINESS

Compliance time required to hire a worker

Average number of hours required per worker



Note: Tax compliance includes establishing PAYG, establishing superannuation, confirmation of legal status and employment status. Pay and awards includes understanding relevant awards, determining employment status and pay, and completing tax file forms. Time estimated includes once-off establishment time as well as marginal time for each worker in each category.

Source: Fair Work Ombudsman, ATO, AlphaBeta.

CASE STUDY

COMPLEX PAY RATES, TRAINING REQUIREMENTS: SMALL GROCERS STRUGGLE WITH REGULATORY BURDEN

IGA Springfield Lakes employs 25 staff, including 20 student casuals. All are paid according to Fair Work Australia's General Retail Industry Award and trained to meet OH&S, tobacco retailing and responsible gambling laws – requirements that come at significant cost for proprietor Terry Slaughter.

"It's all for good reason, but ... retail is tough – it's not just displaying something, putting a price on it and selling it," Slaughter says.

"Margins shrink, wages go up, sales shrink, and regulation has become a part of day-to-day life."

The Fair Work Award applies to businesses without a tailored Enterprise Agreement. It sets out 14 rates of pay depending on each worker's age and responsibilities, and nine loading rates depending on employment status and time worked.¹ This means small grocers may be paying their staff a total of 126 different rates.

At IGA Springfield Lakes, one school-aged worker was paid at five different rates throughout her 14-hour working week, creating an outsized administrative burden for the business.

Slaughter relies on payroll and rostering software and a dedicated bookkeeper to ensure his business complies with Fair Work regulations. Before adopting the software in 2014, it took him two hours a week to manually check rostering spreadsheets against the Award's pay rates.

"We really need to make regulations a little simpler," he says. "Regulatory bodies are just putting these rates in without understanding how it looks from a business perspective. Now, I just trust the software, and if you ask any of my casuals, they don't understand their payslips either."



¹ Master Grocers Australia (2019), General Retail Industry Award 2010 –Casual Employees, 26 September 2019.

2. Cutting regulation

Regulatory constraints create a burden for small business

- Small businesses often lack the scale and resources to stay on top of regulatory burdens. 7 out of 10 Australian small businesses report that dealing with government red tape is a burden which detracts from their business.¹
- Excess red tape costs Australian small business \$9.3 billion every year.
- The cost of tax compliance for small firms (\$90 per \$1000 turnover) is 225 times higher than the cost for large firms (\$0.40). Compliance with employment regulations is also cumbersome.

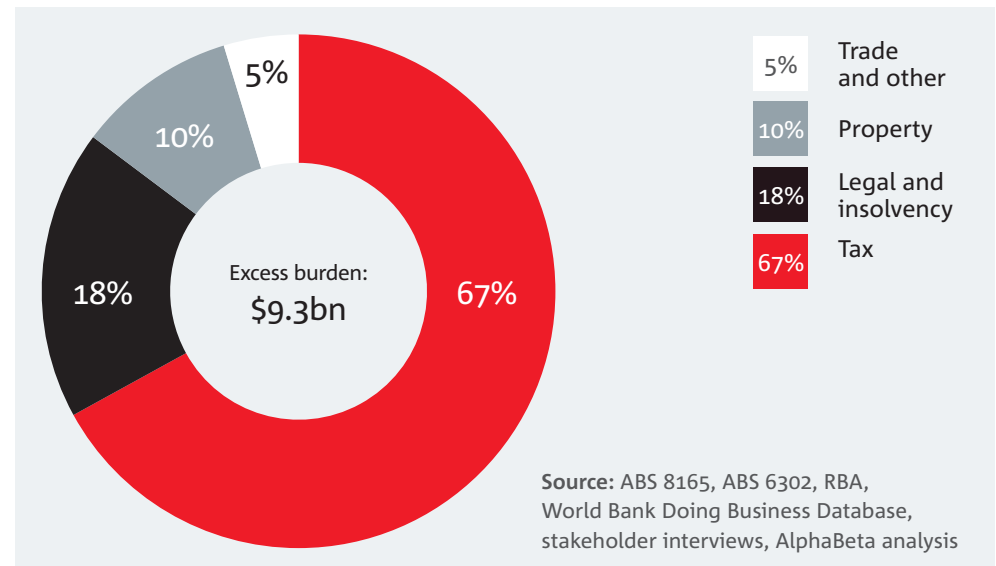
Australia needs a national plan to cut regulation

Governments around the country have made progress in addressing red tape for small business such as the Morrison government's establishment of the Australian Government Deregulation Taskforce. In addition to these reforms, small businesses would benefit from:

- Considering small business exemptions for some regulations and reporting, such as workplace health and safety for low-risk firms or providing special, simplified small business enterprise agreements.
- Consider abolishing Fringe Benefits Tax for small business and provide a permanent instant asset tax writeoff.²
- Reducing tax compliance, for example by linking government data to avoid small business providing the same data multiple times and increasing use of embedded APIs to allow small business to manage tax affairs from within banking and other platforms.
- Enhancing use of technology for government interactions, such as extending the use of Single Touch Payroll.
- There is an opportunity for Governments to pursue these reforms through the initial focus of the Council of Federal Financial Relations on deregulation opportunities.

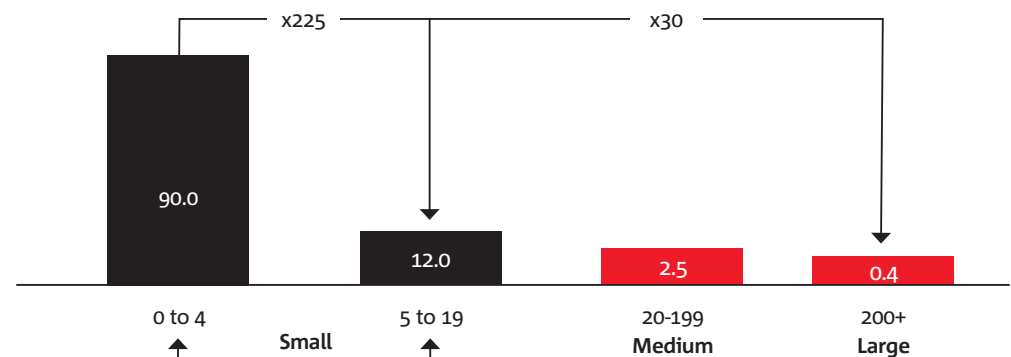
EXCESS RED TAPE COSTS SMALL BUSINESS \$9.3B EVERY YEAR

Annual cost of time spent on major compliance activities by small business, \$ billion



TAX COMPLIANCE COSTS MICRO FIRMS 225 TIMES MORE

Annual cost of time on compliance activities for small business, \$ per \$1000 of turnover by number of employees



Source: Lignier, Evans and Tran-Nam (2014), AlphaBeta analysis

CASE STUDY

SYDNEY'S BARBERHOOD CALLS TO SHAVE COSTS OF RED TAPE

Renee Baltov had already waited weeks for council approval of her second Sydney barbershop when she learned of a typographical error that cost \$300 and took another three weeks to address.

"On one part of the form, we wrote 5 Martin Place, and on another part, we said 5A," she explained. "The cost isn't just the money, but the time."

Baltov started men's grooming chain The Barberhood in 2015, after a 17-year career in marketing. Competition has intensified, with the Hairdressing and Beauty Industry Association reporting a tenfold increase in barbershops in the past 5 years.

The Barberhood now operates from two locations in Sydney CBD, with a third in the works. Red tape has been an ongoing challenge. Besides construction approvals, the business is subject to five different taxes, OH&S, media licensing laws, privacy laws, employment law, and complex visa processing requirements for its foreign workers.

"If you are a legitimate business and you're doing the right thing, there are so many different taxes you have to pay," Baltov said.

"There are so many different laws for so many different things, you're constantly looking things up, and constantly afraid of getting in trouble."

Red tape costs the Barberhood an estimated \$30,000 a year in accounting, legal and music licensing fees. That's in addition to the time Baltov spends researching various regulatory obligations, and application processing times that cost the business thousands of dollars in missed revenue each week.

Baltov called for more support to help businesses understand complex regulations, as well as shorter wait times for applications to be processed.



3. Making sure small businesses get paid faster

Small business cash flows are affected by late payments

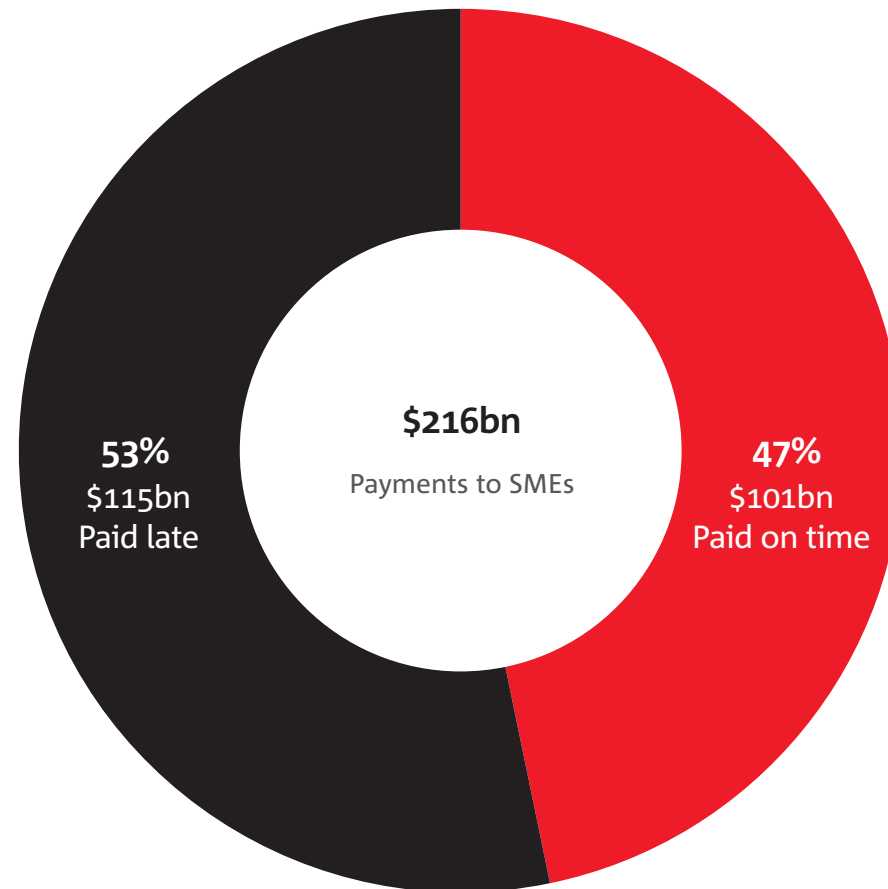
- More than half (53%) of small firms' trade credit is paid late by large firms, amounting to \$115 billion in late payments per year.¹
- Each year, late payments from large businesses effectively deprive small businesses of \$7 billion in working capital.¹

Speeding up cash flow to small business can support small business growth

- E-invoicing is crucial to support timely payment of invoices. Government should lead the way in embracing e-invoicing and encourage big business to do the same. Small businesses would benefit from support to understand how to enable e-invoicing.
- The Payment Times Reporting Bill 2020 will assist with faster payment times, requiring businesses with a total annual income of over \$100 million to report on how and when they pay their small business suppliers.
- The Business Council of Australia has introduced the Australian Supplier Payment Code and the Australian Government is moving towards 20 day payment times. NAB is a signatory to the Supplier Payment Code.
- Large firms should endorse the National Payment Reporting Framework, join the e-invoicing network and the Australian Supplier Payment Code and ensure systems are in place to measure payment times from correct invoice receipt.
- Governments should require their large business contractors to pay their SME suppliers on the same or better terms as they receive.

MORE THAN HALF OF ALL INVOICES ISSUED BY SMALL BUSINESSES TO LARGE BUSINESSES ARE PAID LATE

Timeliness of trade credit payments from large to small business
% of total payments from large to small businesses



Source: Based on analysis information on more than 10 million invoices issued by more than 150,000 SMEs. Xero and AlphaBeta (2019), AlphaBeta analysis

CASE STUDY

LATE PAYMENTS FROM LARGE CLIENTS LEAVE CREATIVE AGENCY VULNERABLE

Mitch Morgan Design has provided graphic design, branding, video production and printing services to clients in the public, private and education sectors for the past six years. One hundred percent of its client invoices have been paid late throughout that time.

“Cashflow is the number one problem in a small business,” says director Mitch Morgan, who employs a team of three in Sydney’s inner west. “You’ve got staff wages, rent, and other overheads that all go out while you’re waiting to get paid.

“Sometimes you’re paying tax on money you haven’t even got yet, which does leave you in a very vulnerable position.”

The agency’s projects range from less than \$100 in value to up to \$30,000. Morgan initially asked clients to pay their invoices within 21 days. Hoping to improve cashflow, he later changed that to 14 days, then to seven.

Those changes made no difference: clients take about 30 days to pay their invoices regardless of payment terms, with large organisations typically slowest to pay.

“Big businesses are used to dealing with other big businesses for whom cashflow isn’t as much of a problem,” Morgan explains. “You might be dealing with your contact, and they would have a superior who has to approve a purchase order or sign off on it.

“Unfortunately, the time that we have to spend chasing invoices is time that we take out of running the business.”



4. Harnessing the power of digital tools

Smaller firms have traditionally fallen behind in digital capability

- Micro firms are up to 75% less likely to adopt digital technology to support business processes like strategic planning.
- Less than 40% of micro and small firms use digital tools to support planning, marketing or production processes.
- Almost half (43%) of all cybercrime is targeted at small business.¹
- Only 54% of small firms use digital invoicing and accounting relative to 78% of large businesses.
- Meanwhile, around one in four small businesses experience cybercrime each year,² often costing \$1,000-5,000.³

Small business should be supported to build on rapid adoption of digital tools during COVID-19 with incentives and support

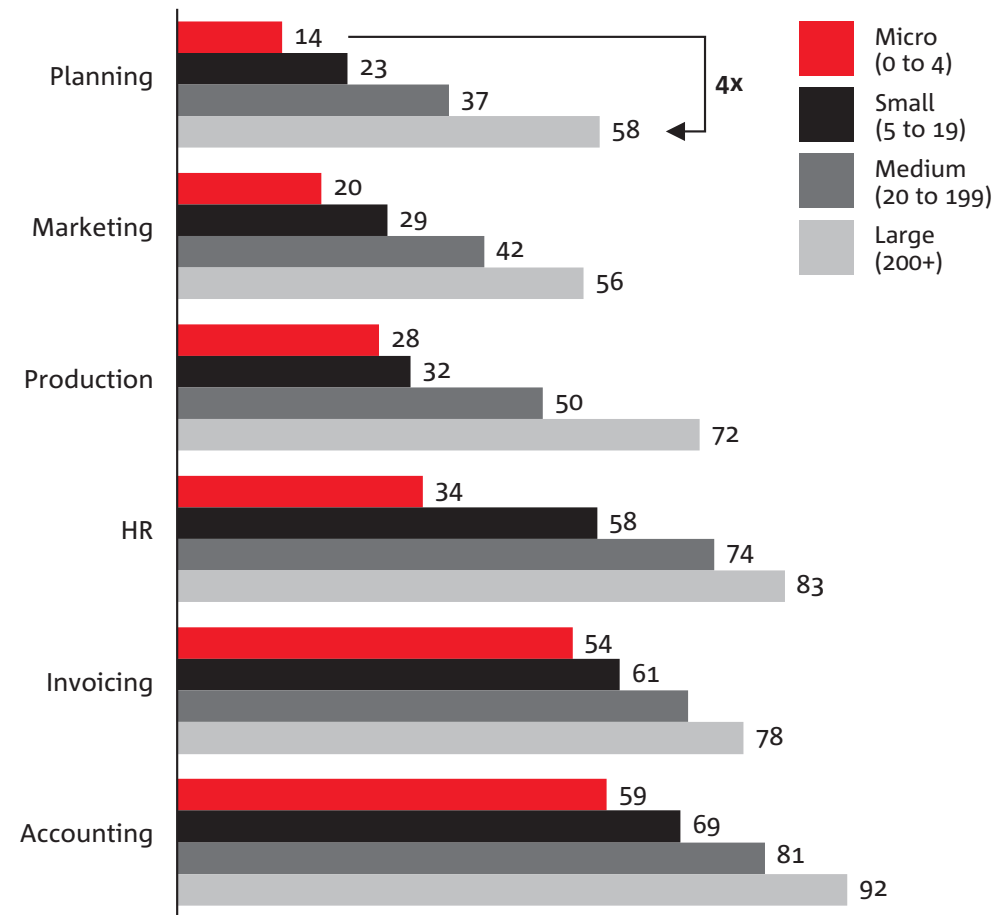
- Programs such as the Australian Digital Champions, introduced following the government's response to the report of the Small Business Digital Taskforce, provide important support.
- Australian governments should embrace e-invoicing and encourage large businesses to integrate e-invoicing into their ERP systems.
- Businesses should be supported to improve knowledge of cyber security, such as the work NAB is doing through workshops and online training modules to raise awareness and capability among small businesses.
- Encouraging industry associations, trusted advisors and supply chain partners to act as mentors who could help small businesses build confidence and identify opportunities to adopt digital tools.
- NAB is exploring ways to further enhance its digital offering to small business customers, building on the recently established Small Business Hub.

1. MYOB (2017). 2. ASBFEO. 3. NSW Small Business Commissioner.

LARGE FIRMS ADOPT DIGITAL TECHNOLOGY FOR KEY BUSINESS PROCESSES AT UP TO 4 TIMES THE RATE OF SMALL BUSINESSES

Firm uptake of digital technology

% of firms using a technology to a high extent by firm size



Source: ABS 8129, AlphaBeta analysis

Source: ABS 8129, AlphaBeta analysis

CASE STUDY

'OUT OF SIGHT, OUT OF MIND': MELBOURNE GROCER REAPS BENEFITS OF DIGITAL OVERHAUL

Family-owned Second Ave Grocer was still paying suppliers by cheque before its newly appointed general manager, Anthony Krslovic, took the reins.

The Mediterranean delicatessen has been a local favourite since it opened in Melbourne's Altona North 30 years ago. But demographics have changed, with younger, higher earning families moving into the area over the past decade.

In mid-2019, the business embarked on an operational overhaul, refreshing its management structure, installing new retail and financial technology, and appointing a digital marketing firm to build up its social media presence.

"Being a family-run business, it's sort of 'out of sight, out of mind,'" said Krslovic, who was appointed general manager in the reshuffle. "The issue with a lot of businesses is that they don't change with the times.

"Times are changing – a product that used to move 5 years ago is no longer moving now. And everyone is on their phones 24/7."

With new point-of-sales, payroll, and accounting systems, Second Ave Grocer has avoided 30-40 hours a week of manual processes –time better spent managing and growing the business. Data from these systems has enabled better inventory management, reducing wastage and ensuring there is enough stock to meet demand.

Second Ave Grocer's new website, social media and email marketing platforms have also enabled new sales and marketing opportunities, including a Christmas campaign that saw it supply 50 grazing boxes for various events in the neighbourhood.



5. Opening procurement opportunities

Small business is locked out of many government contracts

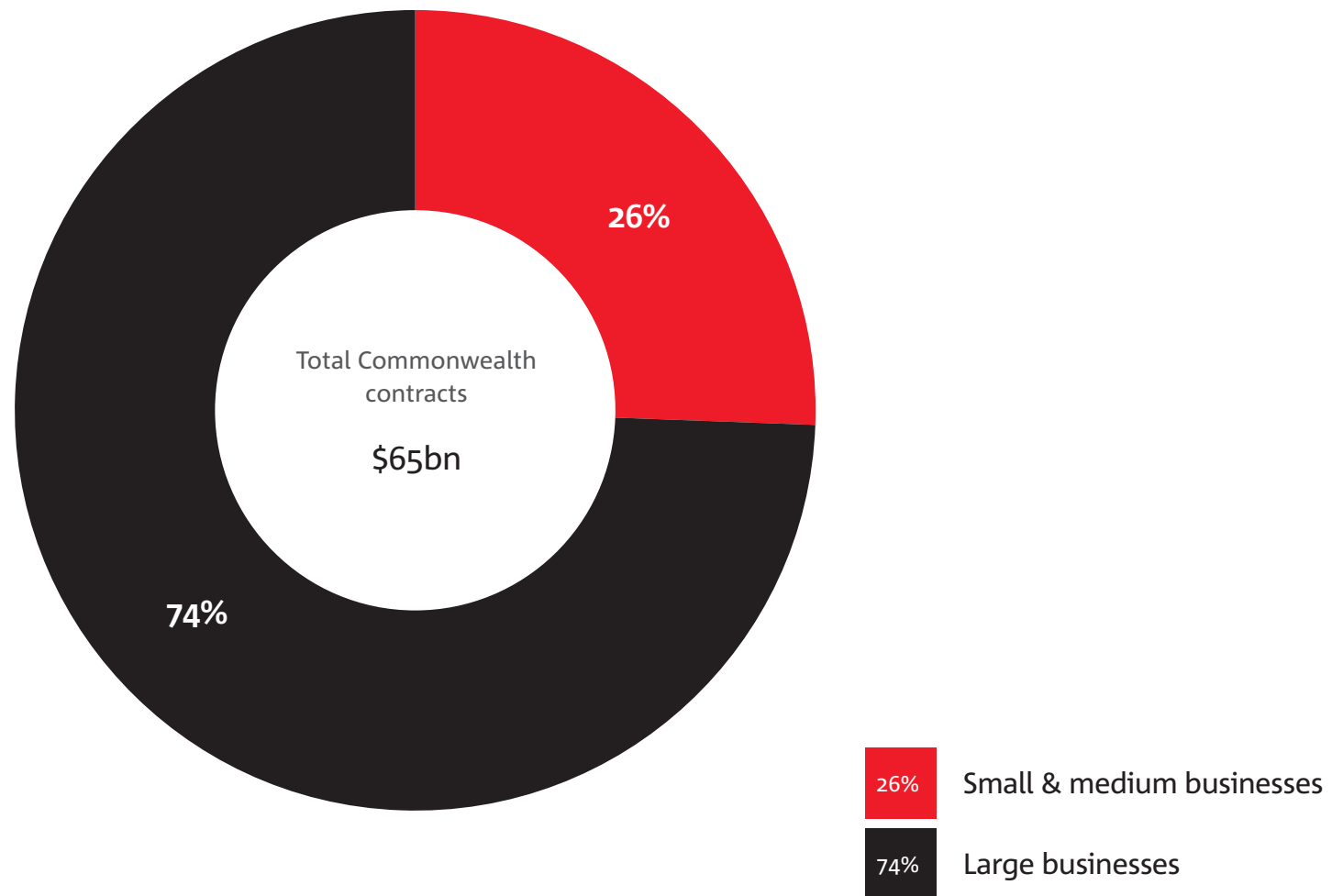
- Over half of small businesses (54%) report that it is very hard for them to gain a position on public and private sector supplier panels.¹
- Small business is two-thirds of the economy by employment, but wins only a quarter of the value of federal government contracts.²

Simple action could expand procurement opportunities for small businesses

- Continue to increase the amount of government contracts by value given to SMEs from its current 10% procurement target.
- Mainstream pilot programs that simplify tender processes, including making it easier for consortium bids.
- Ensure that large businesses improve their on-boarding process to register small suppliers more quickly and at lower cost.
- Consider creating a small business procurement panel for any Government contract under \$10m.³

SMALL BUSINESS ONLY RECEIVES ONE QUARTER OF GOVERNMENT CONTRACTS DESPITE BEING MORE THAN HALF OF ALL PRODUCTION

Australian government procurement by firm size
% of Australian Government contracts by firm size, 2019



Source: Department of Finance (2019), AlphaBeta analysis

6. Further access to capital

Small businesses are suffering from slower approvals and higher costs of capital

Access to capital can be a problem for small businesses due to lacking financial history, collateral and confidence.

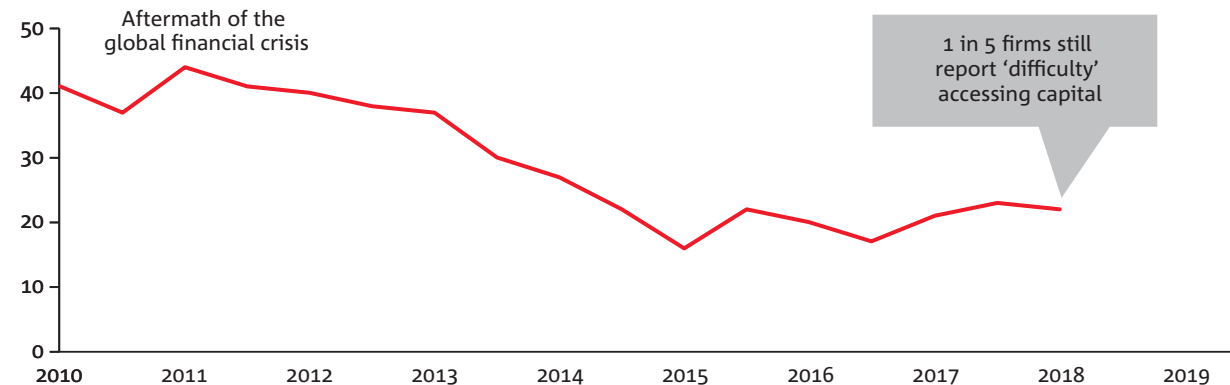
- 1 in 3 new businesses report funding as their top challenge.¹
- 1 in 5 small businesses report difficulty in accessing finance.²
- Small business lending (6% pa) has grown at two-thirds the pace of large business lending (9% pa) since 2000.
- Australia invested only two-thirds the venture capital of OECD peers in GDP terms in 2018.

Australian small businesses need greater access to a more diverse range of finance options

- NAB is proud to partner with the Federal Government and other major banks to establish the Business Growth Fund which will provide SMEs access to equity growth capital. Governments are also supporting small business finance through funds like the Australian Business Securitisation Fund.
- ASBFEO has recommended that the Australian Prudential Regulation Authority (APRA) moves from the one-size-fits all model and allow regulated institutions to apply risk weightings to specific risk factors to help improve small business access to capital.³
- Open Banking will allow small business customers to instruct their banking services provider to share their data with accredited third parties, opening up more competition in sources of finance.

1 IN 5 SMES REPORT 'DIFFICULTY' TO ACCESS CAPITAL

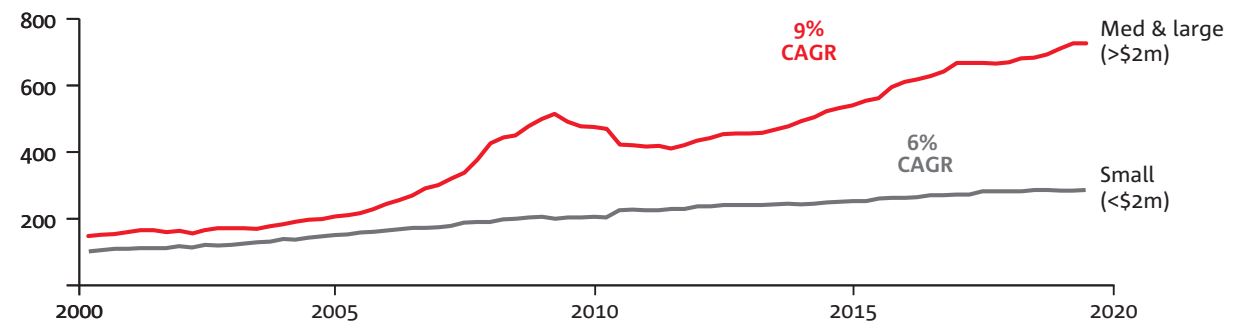
Per cent of respondents reporting 'relatively difficult' access to capital, %



Source: RBA Bulletin 2018

SMALL BUSINESS LENDING IS GROWING AT 2/3 THE PACE OF LENDING TO LARGER FIRMS

Total credit outstanding by firm size, \$ billion



Source: ABS 8167, RBA, AlphaBeta analysis

CASE STUDY

BORROWING FEARS SLOW EXPANSION OF MELBOURNE FASHION CHAIN

When Lina Parisi launched Little Black Bag in 2014, she planned to open a new branch for the fashion accessories chain within 12 months, and a third branch a year later. But expansion took twice as long as she had hoped.

“We originally started with our own finances, and thought we’d be able to grow with cashflow,” Parisi says. “But of course, opening each new branch means you’re going to need three months’ rent upfront and more stock.

“I do think having limited capital has stopped our growth.”

While many small businesses owners fund their ventures with loans secured against the family home, Parisi was reluctant to go down that route.

She eventually funded Little Black Bag’s second branch in 2017, after learning of NAB’s QuickBiz Loans. QuickBiz is an automated, unsecured lending platform for small businesses that offers loans of up to \$100,000 by using machine learning to analyse the strength of the business.

Parisi was approved for a \$100,000 unsecured loan within 10 minutes, and will soon open a third store with a new \$50,000 loan.

“We’ve been a bit more conservative. I didn’t want to have that pressure of having the business secured against my house,” she explains.

“If I had known about unsecured QuickBiz loans sooner, I probably would have launched the stores sooner. The loans gave us that little bit of extra confidence in knowing that there is more money there if you need it.”



7. Lifting small business management capability

Small business has much lower management capability than large firms

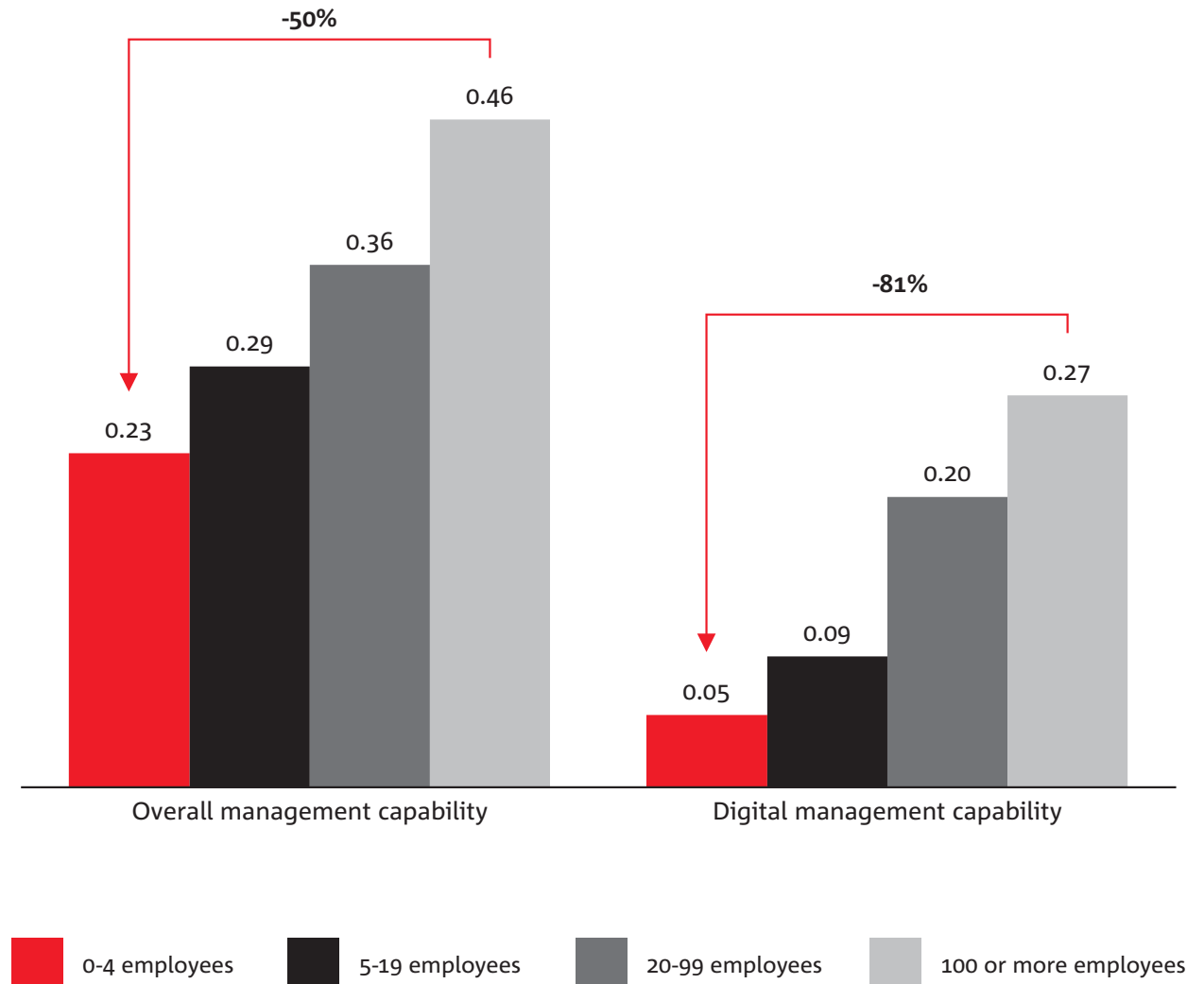
- Overall management capability is 50% lower in small firms than large firms.¹
- Digital management capability –which involves the effective adoption of digital technologies such as mobile devices, social media, data analytics, cloud computing and Internet of Things –among small firms is 81% below large firms.

Small business should be supported to improve their management skills

- NAB already supports business owners and managers with the critical skills to build their business with up to 300 partial scholarships for business customers for the Australian Owner-Manager Program.
- The Australian government should consider offering a Capability Development Voucher Scheme that pays for half of eligible firms' training costs² or a similar voucher to support more businesses to access the Australian Owner-Manager Program.
- Small businesses should be supported with digital training and capability development.
- Small businesses organisations should be given additional funding to support, networking and events for small business owners and managers.

SMALL FIRMS HAVE MUCH LOWER MANAGEMENT CAPABILITY THAN LARGE FIRMS

Average management capability scores of Australian firms



Source: Department of Industry (2019), RESEARCH PAPER 10/2019 Development of Management Capability Scores Renu Agarwal, Chris Bajada, Paul Brown, Ian Moran and Antonio Balaguer, AlphaBeta analysis

1. Department of Industry (2019) 2. This scheme is modelled from a similar scheme operated by NZ New Zealand Trade and Enterprise (NZTE).

CASE STUDY

TRAINING VOUCHER PROGRAM IMPROVES MANAGEMENT SKILLS AMONG NEW ZEALAND SMES

New Zealand Trade and Enterprise (NZTE) encourages small business owners to improve their management skills by partially funding relevant workshops, courses and coaching. Through its Capability Development Voucher Scheme, the agency pays for half of eligible firms' training costs, to a maximum of \$5,000 a voucher. It currently issues more than 3,000 vouchers a year, at a total cost of \$5.9 million.

NZTE's Capability Development Voucher Scheme addresses its goal of growing better, globally competitive businesses. The scheme was introduced in 2010 following a Key Government review. It is part of a wider Regional Business Partners (RBP) Program, which is run in partnership with innovation agency Callaghan Innovation and also offers business mentoring and R&D grants to SMEs.

NZTE's Capability Development Vouchers are issued to businesses with up to 50 staff via registered private sector service providers. These include strategy consultants, business coaches, marketing experts and others that offer training in business planning, systems, capital raising, exporting, intellectual property, marketing, and other topics geared towards growth.

According to a 2015 review, the scheme has improved not only management capabilities among New Zealand SMEs, but also SMEs' attitudes towards training.

The review found that 60% of voucher recipients said the program had moderately or greatly improved their ability to manage their businesses.¹ SME business owners were also more than twice as likely to invest in additional training after having participated in the voucher scheme.



1. NZ Ministry of Business, Innovation & Employment (2015), Evaluation of the Regional Business Partners Programme.

8. Improving state business conditions

Conditions for small businesses vary across the states

- Over the four quarters to March 2020, small business conditions in some states ranged from 7.8 in Victoria to -5.8 in Western Australia.

State and territory governments can support small business growth through streamlining and improving policy settings

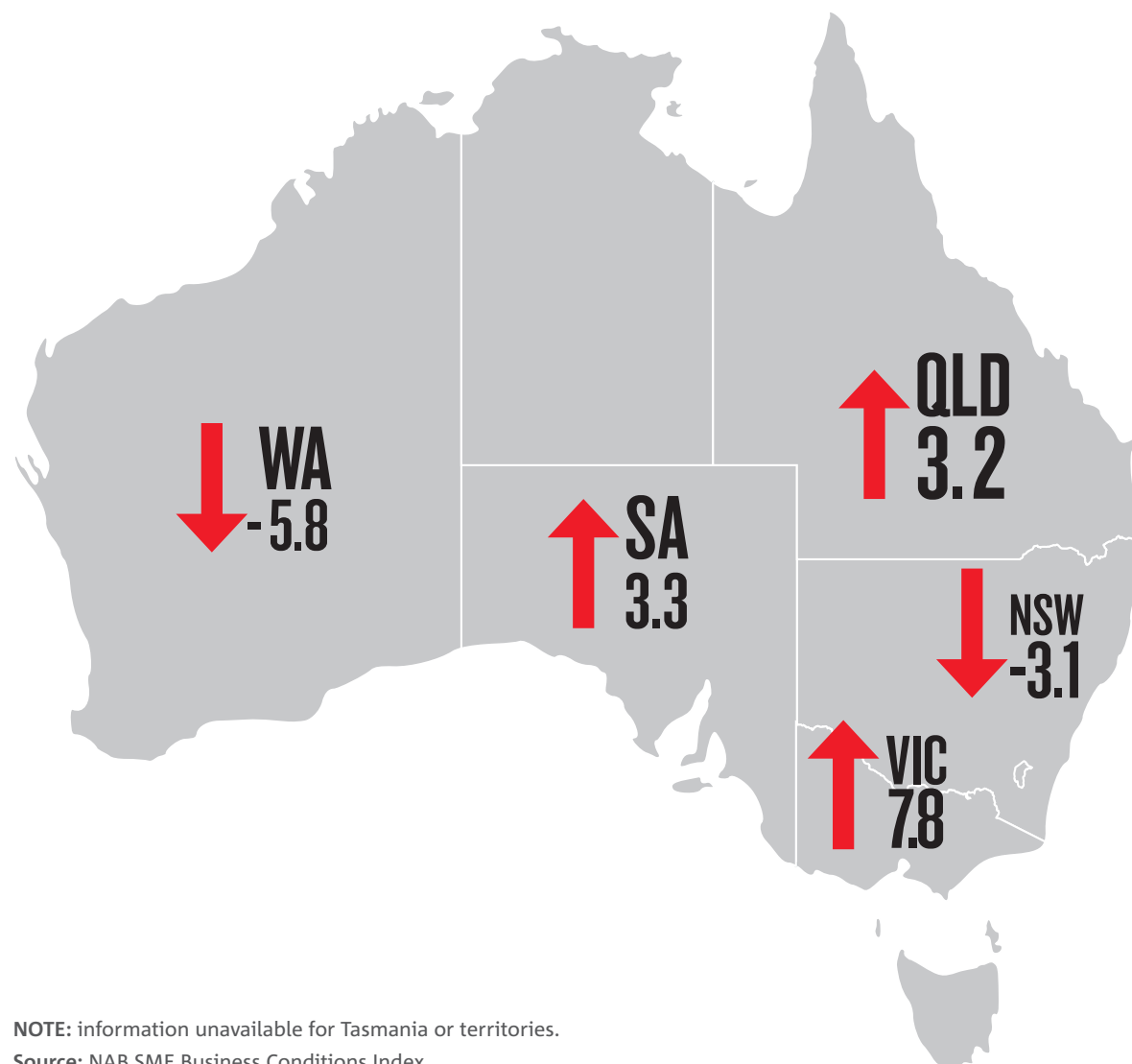
- State governments affect the ease of starting a business because they have responsibility for registrations, permits, funding and development approvals required for many small businesses.
- State governments also affect how easy it is to run a business. They have influence over many of the critical inputs for small businesses including infrastructure, skills and capital markets. State governments also levy payroll tax and influence a number of critical business costs.
- State governments also affect how easy it is to grow a business. They can influence the state's start-up ecosystem and affect the innovation environment.

There is an opportunity via National Cabinet to streamline differences across states that result in business red tape and costs e.g. different road transport requirements, OH&S rules and licensing.

SMALL BUSINESS CONDITIONS VARY CONSIDERABLY ACROSS AUSTRALIA'S STATES

NAB small business conditions index

Average of net balance over the four quarters to March 2020



STATE SMALL BUSINESS POLICY SETTINGS THAT IMPACT STARTING, RUNNING AND GROWING A BUSINESS CAN BE MEASURED THROUGH A RANGE OF INDICATORS

Category	Indicator	Measure
Starting a business	Funding & support	<ul style="list-style-type: none"> Public spending on programs and funding for new businesses Flow of startup funding
	Business and property permits	<ul style="list-style-type: none"> Time to register and seek necessary permits for key types of small business Time for development approvals Time for electricity connection
Running a business	Management capability	<ul style="list-style-type: none"> Owners with post-secondary qualifications
	Skills & digital talent	<ul style="list-style-type: none"> Ratio of job listings to employed workers (difficulty filling jobs) Digital skills ability index
	Transport	<ul style="list-style-type: none"> Vehicle registration costs Metro travel speeds
	Tax	<ul style="list-style-type: none"> Cost of payroll tax for 50 worker firm
	Payments & costs	<ul style="list-style-type: none"> Average days late for late payments from big business Average energy cost for key types of small business
Growing a business	Ecosystem	<ul style="list-style-type: none"> Ranking of startup system effectiveness between states
	Innovation	<ul style="list-style-type: none"> Patents filed per 1000 small businesses
	New markets	<ul style="list-style-type: none"> % of small business with advanced or high digital engagement

THE SMALL BUSINESS POLICY ENVIRONMENT IS STRONGEST IN NSW AND QLD

Category	Indicator	ACT	NSW	NT	QLD	SA	TAS	VIC	WA
Starting a business	Funding	6	1	7	3	4	8	2	5
	Business and property permits	6	1	4	5	3	7	8	2
	Starting a business overall	6	1	7	3	4	8	2	5
Running a business	Management capability	1	2	4	4	8	6	3	6
	Skills	5	8	1	7	4	5	2	3
	Transport	5	8	1	3	7	2	6	4
	Tax	8	5	7	2	1	4	3	6
	Big business	2	3	8	1	5	6	7	4
	Running a business overall	3	6	7	1	8	2	4	5
Growing a business	Accessing supports and funding	5	1	5	3	5	5	2	4
	Innovation	5	3	7	2	6	8	4	1
	New markets	6	2	6	3	6	1	5	4
	Growing a business overall:	6	1	8	4	7	5	2	3

← SMEs in NSW have the best access to start up funding and NSW provides public funding for start-ups through investments like the Sydney Startup Hub.

← QLD has some of the lowest rates of vehicle taxes (50% less than the most expensive state) and payroll tax and some of the fastest travel times in metro areas.

← WA small businesses lead the way in innovation with 1.8 patents granted per 1000 firms.

See appendix for calculations and metrics. 1 = most favourable settings, 8 = least favourable

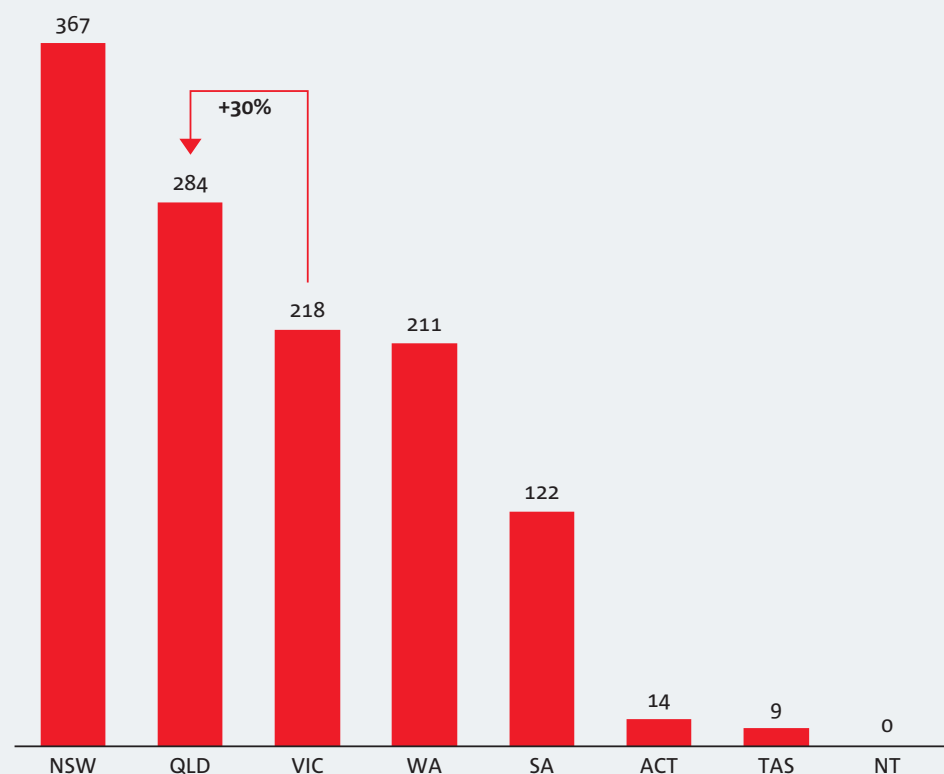
Source: AlphaBeta analysis

APPENDIX

NSW PROVIDES THE BEST ACCESS TO STARTUP FUNDING, BUT VIC HAS GREATER ACCESS TO PUBLIC PROGRAMS FOR STARTUPS WHEN WEIGHTED BY WORKFORCE

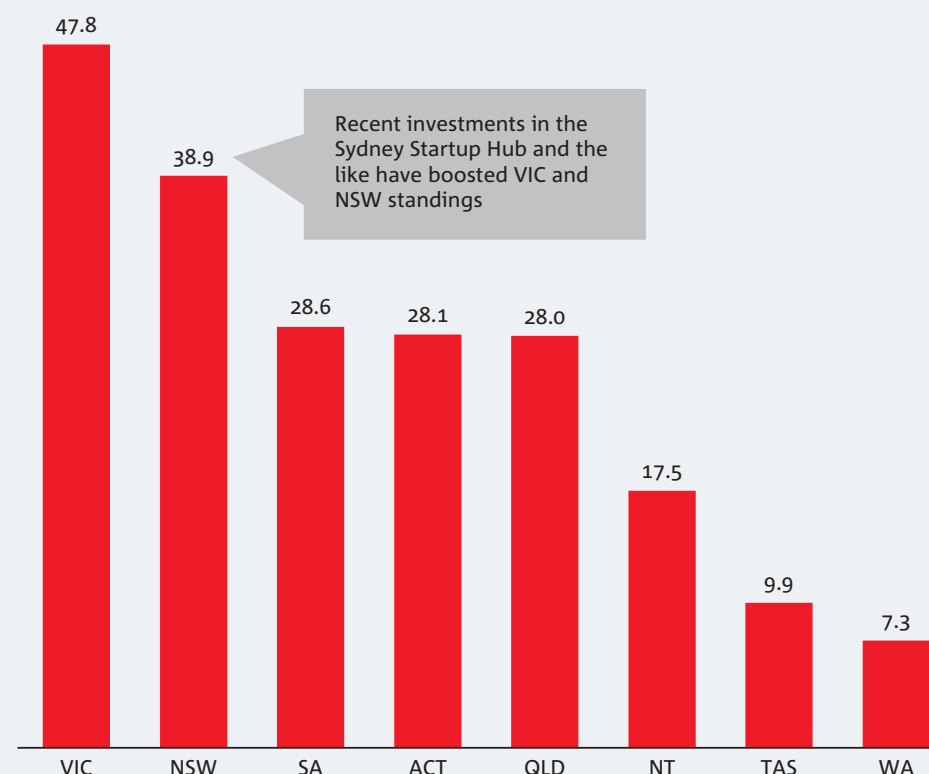
Startup funding is concentrated in NSW and QLD, where startups received $\geq 30\%$ more than the next highest state

\$, flow of startup funding (i.e. new deals) per million workers, 2018¹



State governments in VIC and NSW lead in public funding on programs for startups due to recent substantial investments

\$m for startup programs per million workers, 2016 to 2019 budgets²



1. Includes venture capital, angel investment, public funding, debt facilities, equity crowdfunding and initial coin offerings. Results are weighted to account for the size of workforce in each state which affects both public revenue and the likelihood of startups forming.

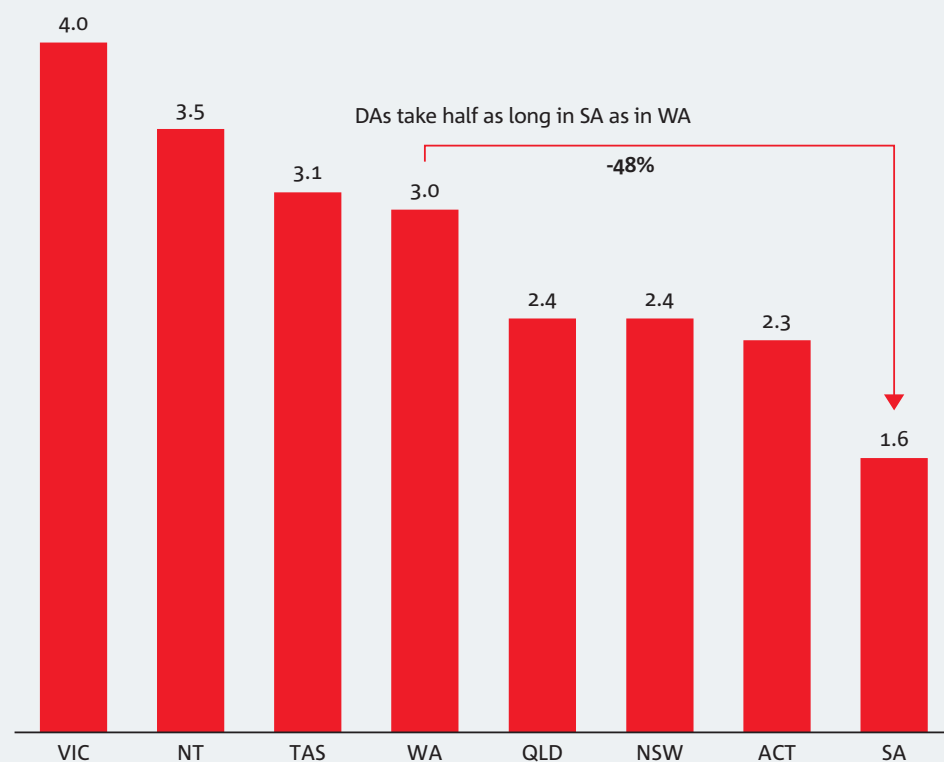
2. Startup funding captured through measures explicitly described in budget materials as supporting the establishment of new businesses.

Source: Techboard(2018), state government budget papers, AlphaBeta analysis

TIME TO SET UP PROPERTY ALSO VARIES BY STATES, WITH VIC LAGGING ON DEVELOPMENT APPROVALS AND TASMANIA ON TIME TO CONNECT ELECTRICITY

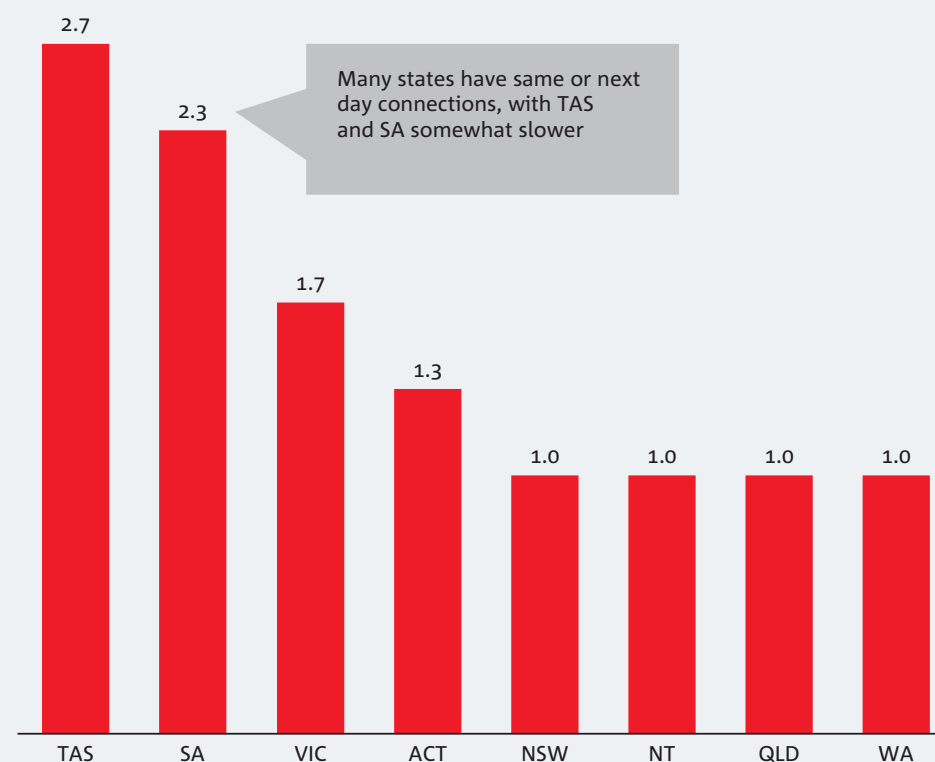
Development approvals take > 3 months in WA, TAS, NT and VIC, twice the shortest average waiting period in SA

Months, average waiting time for development approvals across all local councils per state, 2018¹



New firms in many states face only around 1 day's wait for electricity, with the longest waits in TAS and SA

Business days, average waiting time for connection in metro areas by electricity retailers most used by small business in each state²



1. 2018 or most recent available data was used. Some states do not distinguish commercial from other development approvals in their reporting.

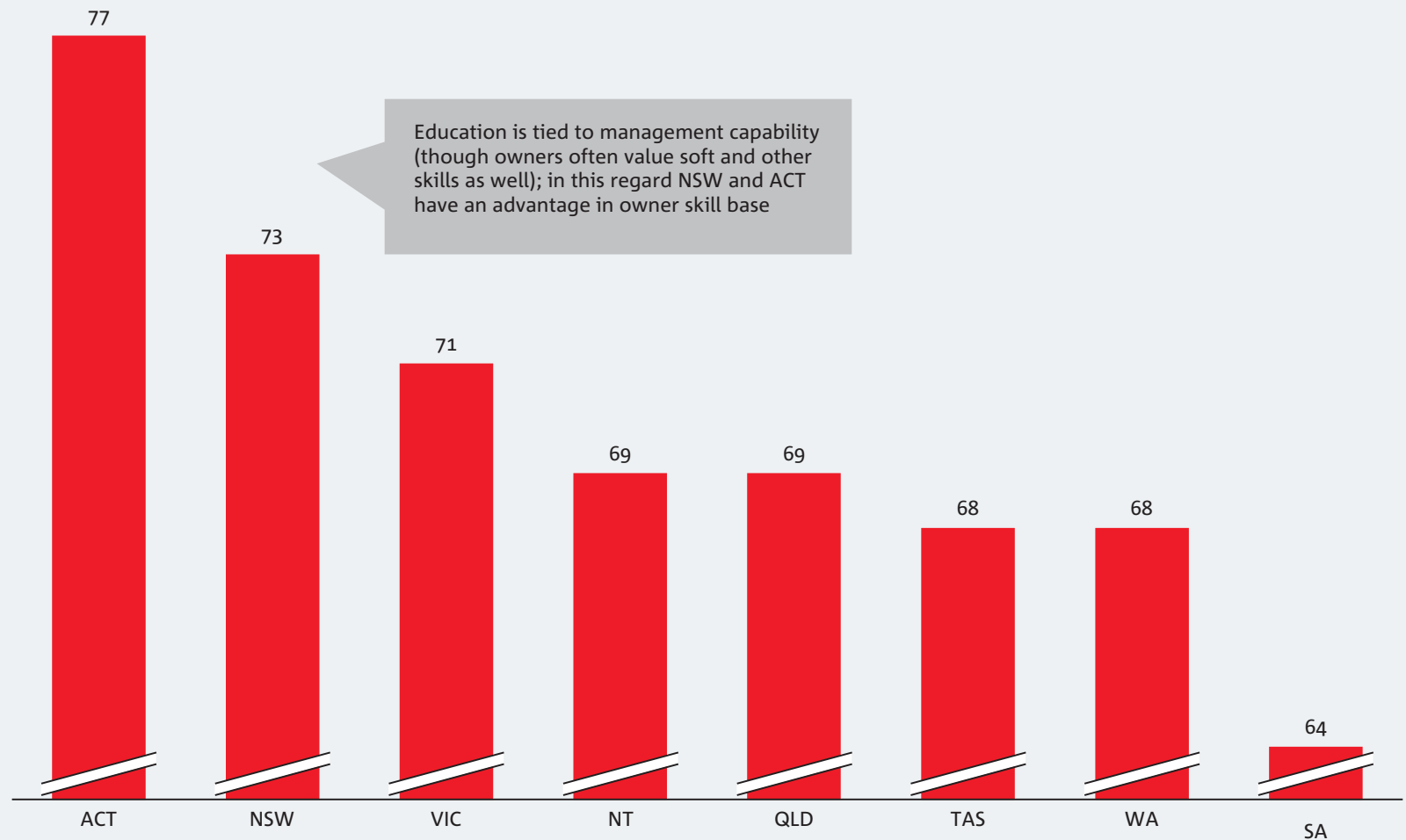
2. Assumes existing property with active electricity connection and meter on site.

Source: state government websites, guidelines and annual reports, interviews with stakeholders including electricity retailers, AlphaBeta analysis

NSW & ACT LEAD IN MANAGEMENT CAPABILITY, AS PROXIED BY POST-SECONDARY QUALIFICATIONS; OWNERS OFTEN VALUE SOFT AND OTHER SKILLS JUST AS HIGHLY

Management capability is a critical driver of success; ACT and NSW may have a slight advantage due to higher proportions of owners with post-secondary qualifications –though many owners value soft and other skills above formal education

Skilled small business owners, % of small business owners with post-secondary qualifications, 2016



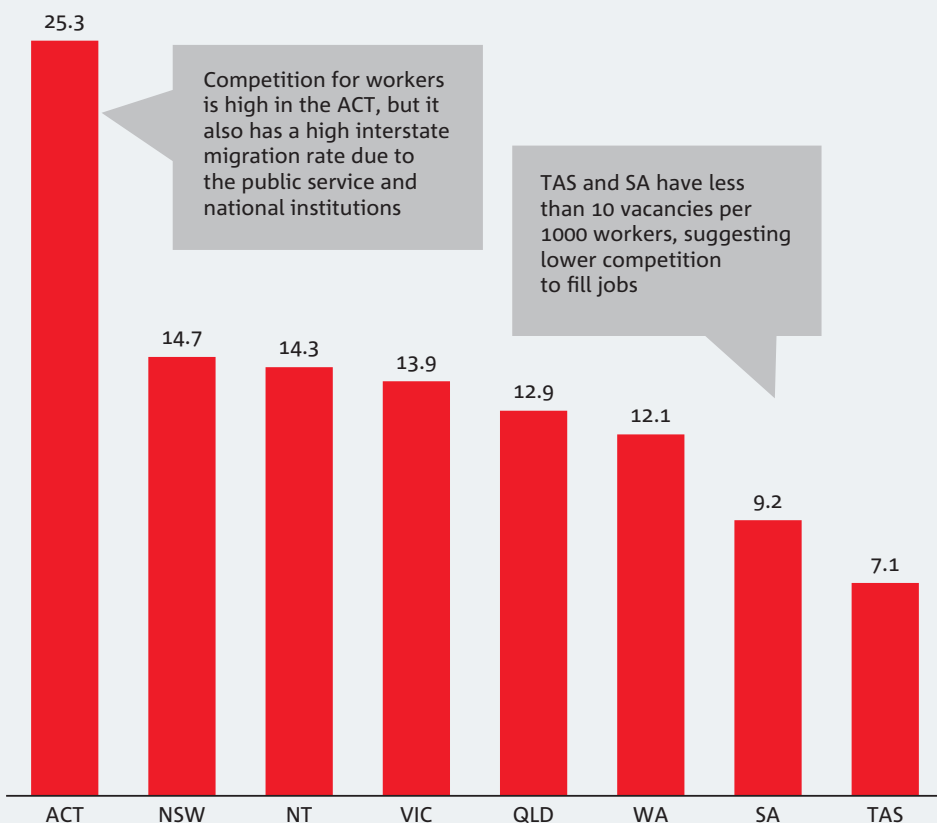
1. 2018 or most recent available data was used. Some states do not distinguish commercial from other development approvals in their reporting.
2. Assumes existing property with active electricity connection and meter on site.

Source: state government websites, guidelines and annual reports, interviews with stakeholders including electricity retailers, AlphaBeta analysis

TAS AND SA HAVE LESS COMPETITION FOR WORKERS, WHILE ALL STATES ARE MIDDLING IN WORKERS' LEVEL OF DIGITAL SKILLS

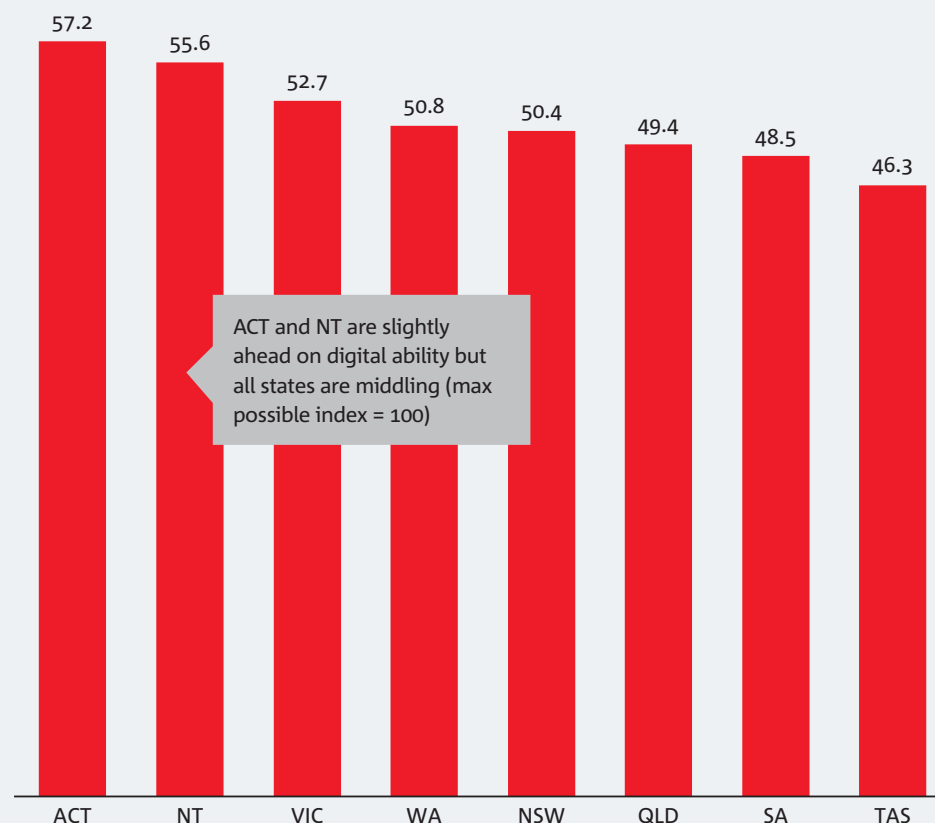
There are more job vacancies per 1000 workers in the ACT than other jurisdictions, pointing to high competition

Ratio of estimated job vacancies per 1000 workers, 2019



All jurisdictions are middling in the underlying digital ability of their population, with TAS and SA slight laggards

Digital ability index of attitudes, basic skills and activities, 2019¹



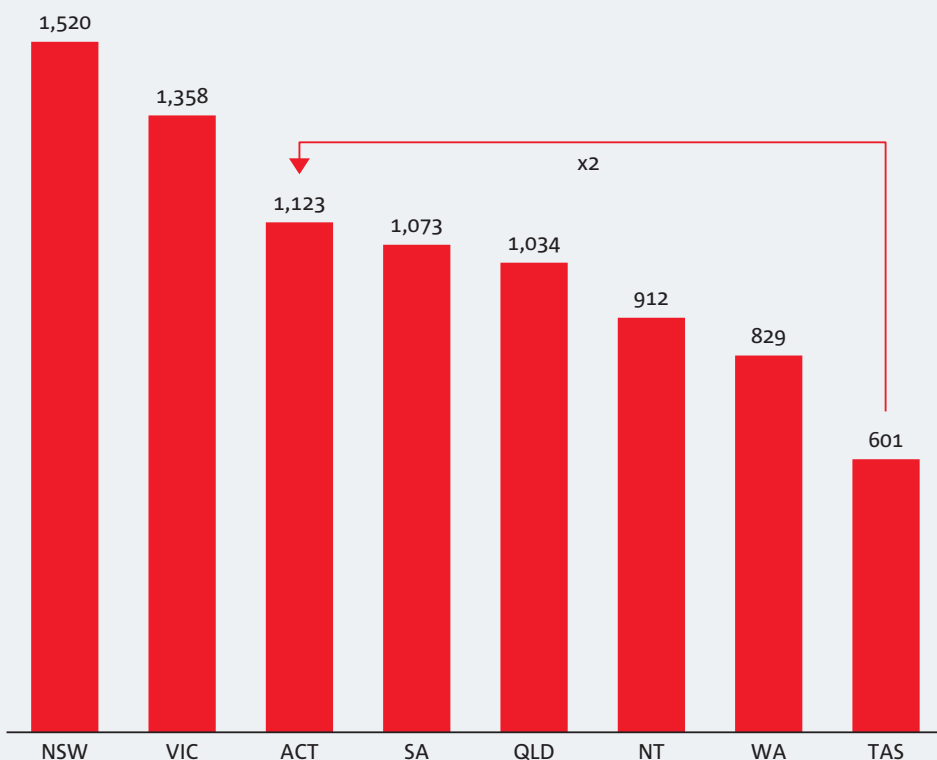
1. Index derived from survey on attitudes such as control, enthusiasm, learning and confidence; basic phone, banking, community and information skills; and frequency of accessing content, communication, transactions, commerce, media and information. The survey encompasses people of working age but also those 65+.

Source: ABS 2016 Census, ABS 6291, Australian Government Labour Market Information Portal, Telstra Australian Digital Inclusion Index (2019), AlphaBeta analysis

VEHICLE REGISTRATION IN VIC, NSW AND ACT COSTS SMALL BUSINESSES TWICE THAT AS IN TAS, WHILE SA, NSW AND VIC FACE THE SLOWEST PEAK TRAVEL SPEEDS

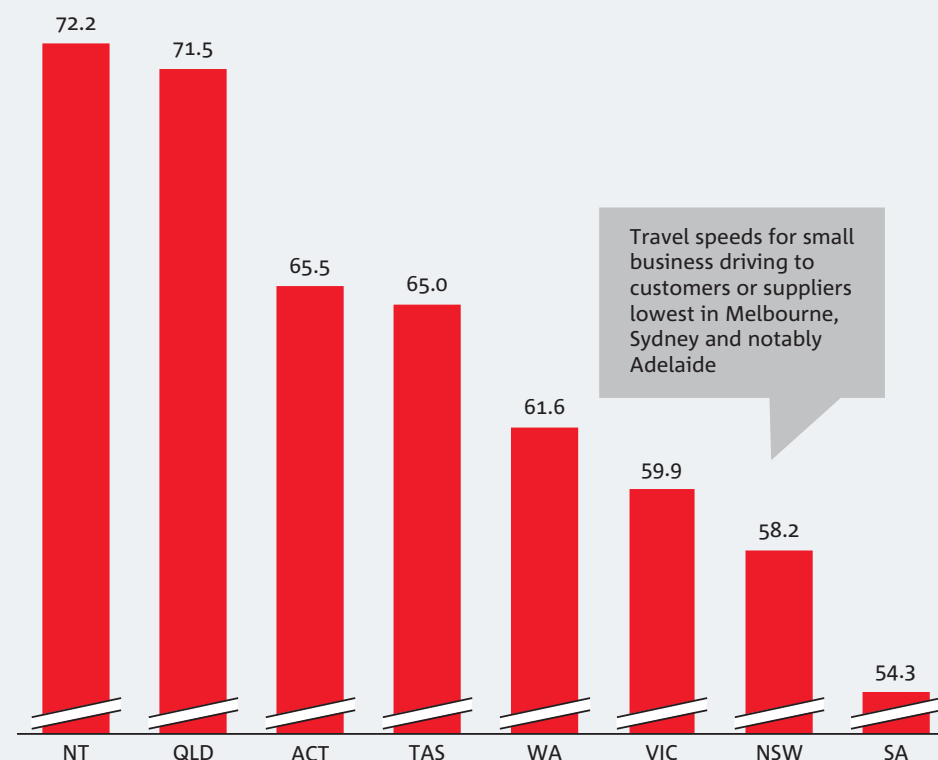
Small businesses pay over \$1100 for vehicle registration in VIC, NSW and the ACT –double that of TAS

\$, cost of registration and CTP insurance for 2016 1.6T Holden ute for business purposes, 2019¹



Travel speeds are slowest in the more populous cities, with the exception of Adelaide with the slowest speed (54 km/h)

km/h, average metro travel speeds



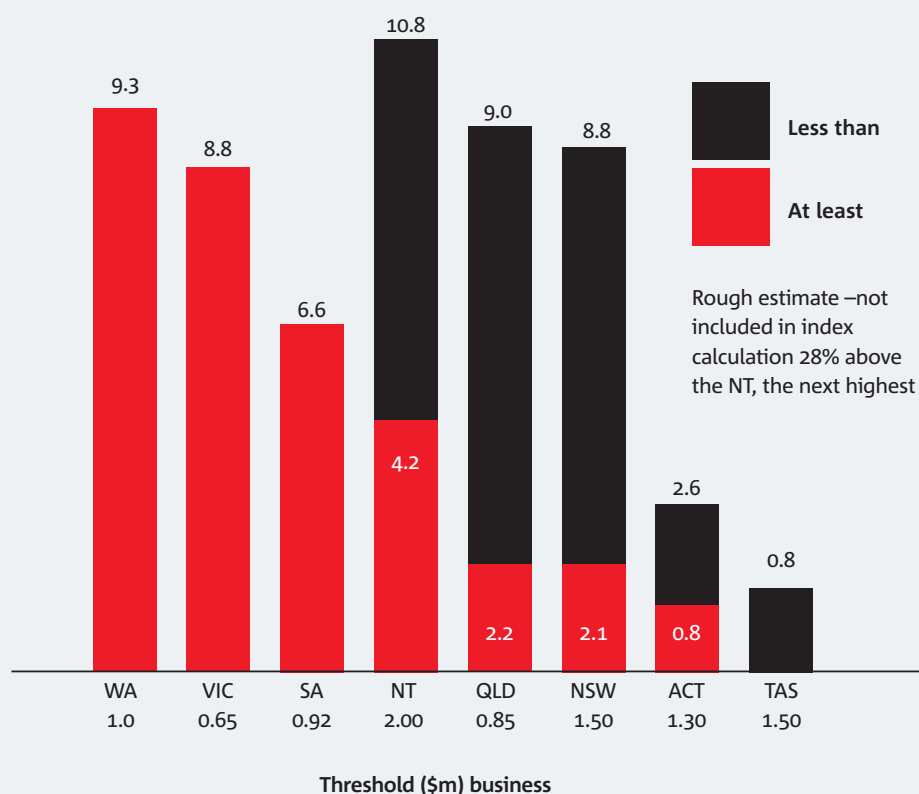
1. Vehicle selected as a common choice for small business, especially in construction and agriculture which are important small business sectors. Estimate based on renewing registration for a company vehicle with a 3.6L engine and \$30K valuation, cheapest CTP and 30yo main driver.

Source: state government websites, Australian Automobile Association (2018), AlphaBeta analysis

MORE SMALL BUSINESSES ARE LIABLE FOR PAYROLL TAX IN WA, NSW AND VIC, BUT THE ACT HAS THE HIGHEST TAX RATE AND SO THE HIGHEST BURDEN FOR THOSE LIABLE

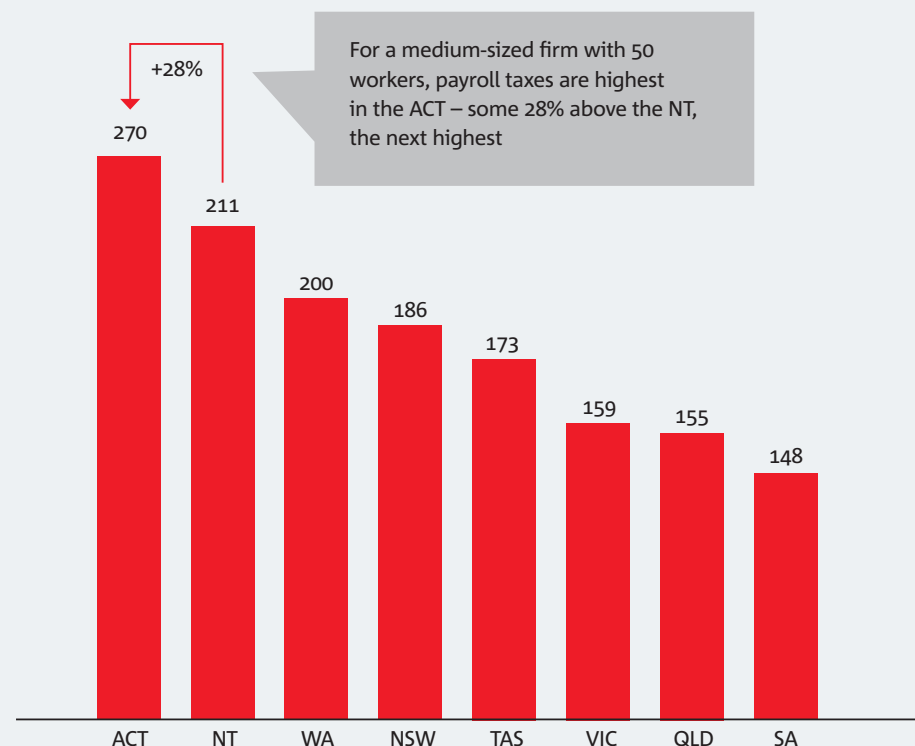
At least 6% of small business are liable for payroll tax in SA, VIC and WA, but most states are looking to raise thresholds

Estimated % of small business that may be liable for payroll tax, upper and lower bounds¹



Payroll tax is highest for an ACT firm with 50 workers, but ACT also has the highest threshold (so least small businesses liable)

\$'000, 2018¹



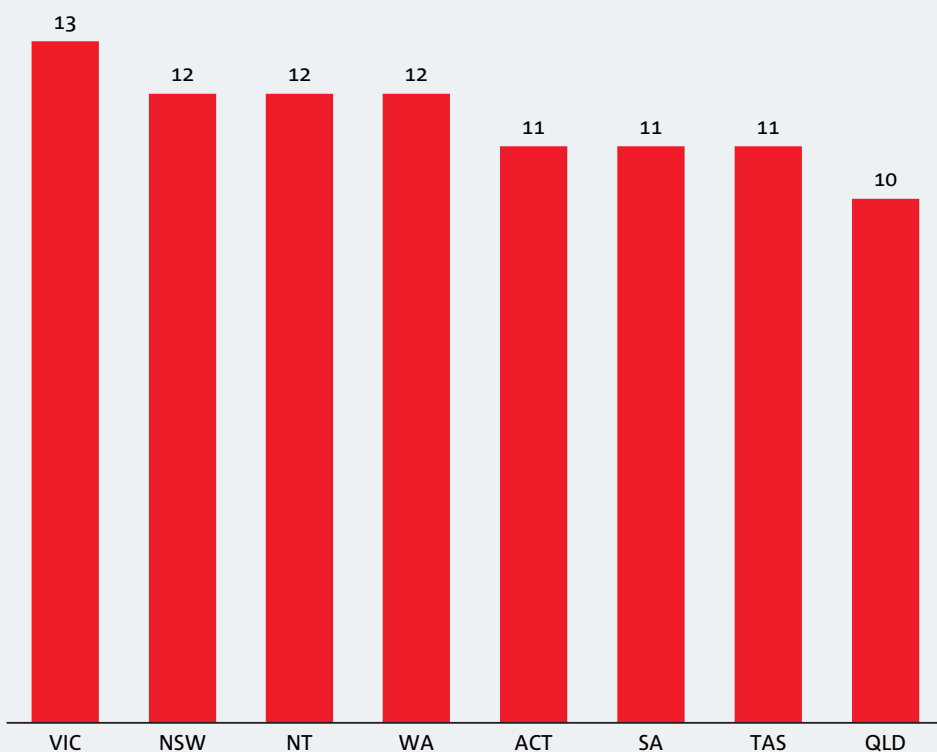
1. Liability for payroll tax derived from estimate of distribution of firms by employee number. Error bars for % of small business subject to tax is based on estimated payroll at the threshold of these firm size ranges (details in appendix). This process identified 50 employees as a useful benchmark for comparing payroll tax burdens between states, and a comparator for medium sized firm likely liable for payroll tax.

Source: ABS 6306, ABS 8165, Eurostat, state government websites, AlphaBeta analysis

LATE PAYMENTS ARE A CHRONIC PROBLEM NATIONALLY, WITH VIC BIG BUSINESSES THE WORST, WHILE ENERGY COSTS FOR KEY SME TYPES ARE HIGHEST IN THE NT

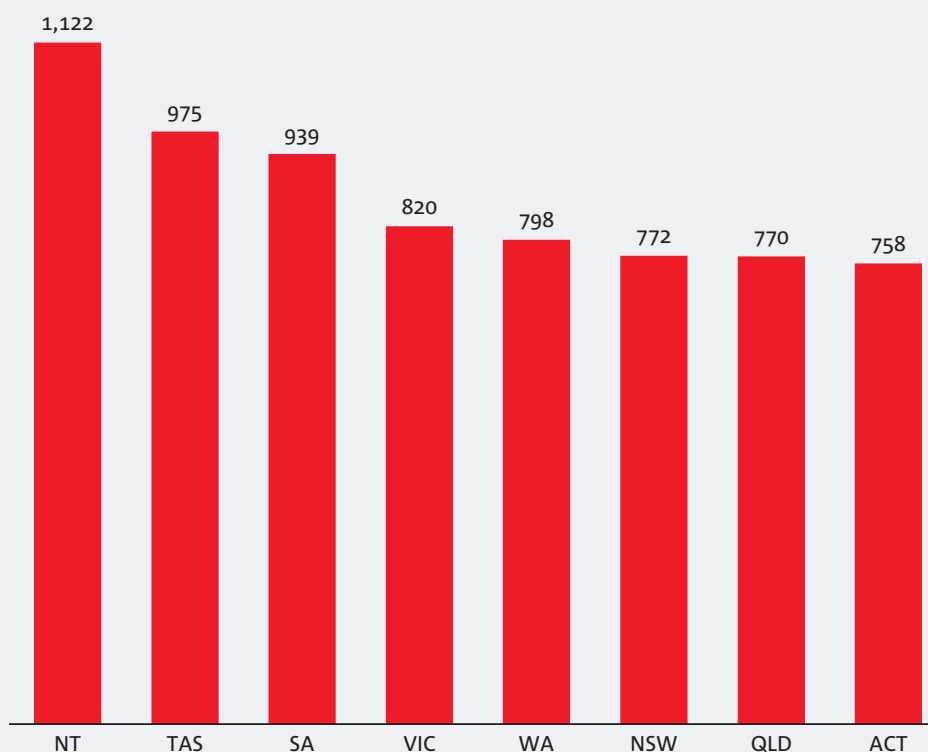
Small businesses in Victoria wait the longest time for big business payments, but late payments are felt everywhere

Average number of days late for big business payments to small business¹



Key types of small business in metro or populous areas face the highest energy costs in the NT, TAS and SA

\$, average annual cost in metro areas for natural gas and electricity for key small business types²



1. Late payment days defined as the average receivables days for small businesses above the standard 14-day payment period.

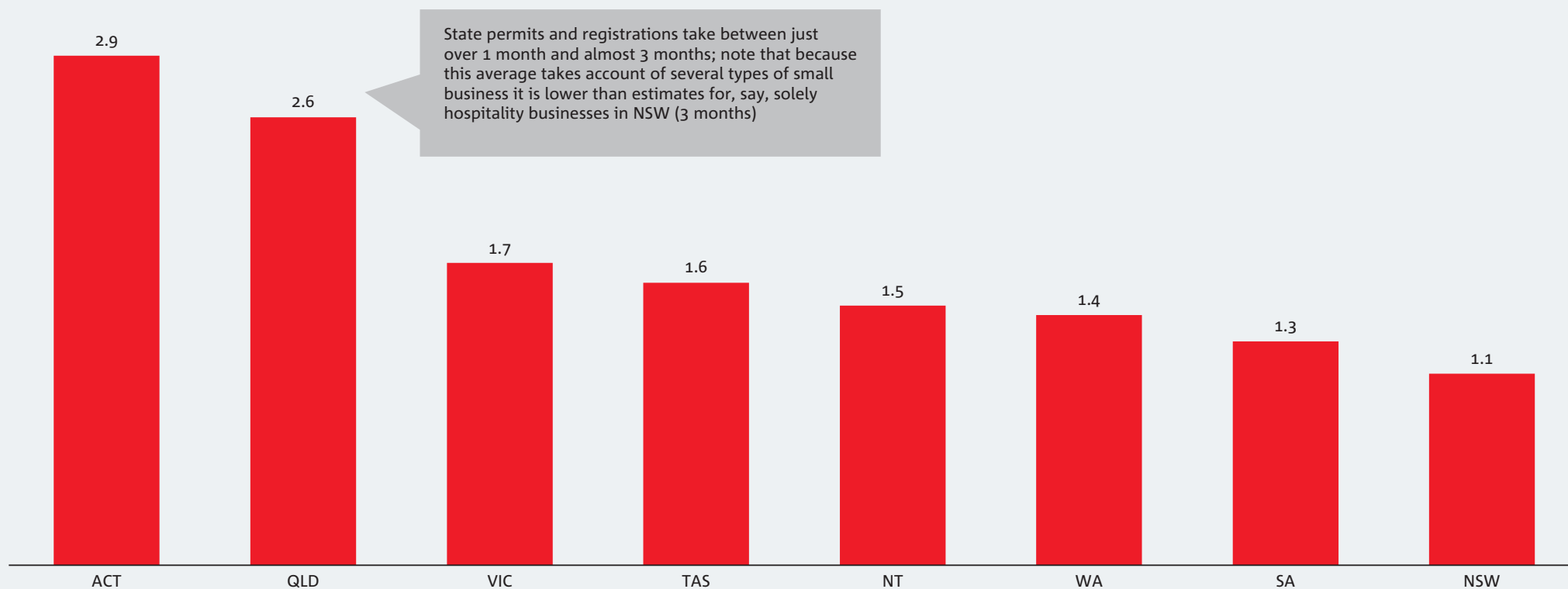
2. Method considered energy costs for the three most common small business subsectors by employment range: carpentry, management advice and consulting, and beef farming firms, all with fewer than five employees. Details in appendix.

Source: Paying the Price report (2019, AlphaBeta for Xero), Small Business Energy Check tool (2019, AlphaBeta for Xero and the Australian Government), AlphaBeta analysis

TIME DEVOTED TO SEEKING PERMITS LIKE LIQUOR LICENSES AN AVERAGE OF 1 TO 3 MONTHS FOR COMMON SME TYPES, WITH QLD AND THE ACT TAKING THE LONGEST

Seeking permits and registrations for a new small business can take between 1 and 3 months depending on state

Estimated average months for non-property registrations and permits in metro areas for common small business types¹



1. Method considered federal and state processes to register small businesses and obtain permits for three most common small business sectors: construction, professional services and hospitality, comprising >1/3 of all small businesses. Permits and registrations included registering special types of business (e.g. restaurants, liquor licenses), applying to use public land and infrastructure (e.g. to display goods or for trade waste), for safety (e.g. cooling towers), and for HR and other processes (e.g. workers' compensation). Time was estimated from public documents and interviews and a weighted average constructed from requirements of the common small business types.

Source: federal and state government websites, guidelines and annual reports, stakeholder interviews, AlphaBeta analysis

SUPPORTS FOR GROWTH AS PROXIED BY THE STARTUP ECOSYSTEM ARE BEST IN SYDNEY AND MELBOURNE, WHILE TAS SMALL BUSINESS IS MOST DIGITALLY ENGAGED

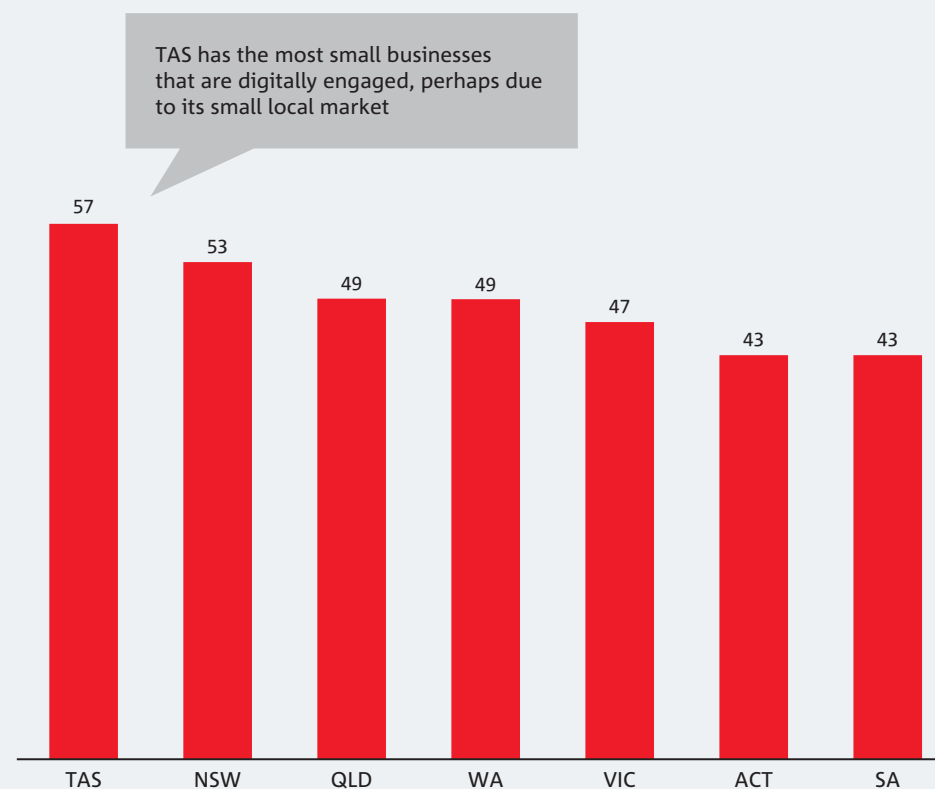
The quality of supports for growth varies by state, and supports are focussed on capital cities

StartupBlink Australian growth ecosystem ranks and scores, 2019¹



Small businesses in TAS are most likely to seek growth in the digital economy, perhaps due to small local market

% of small businesses reporting advanced or high digital engagement, 2017²



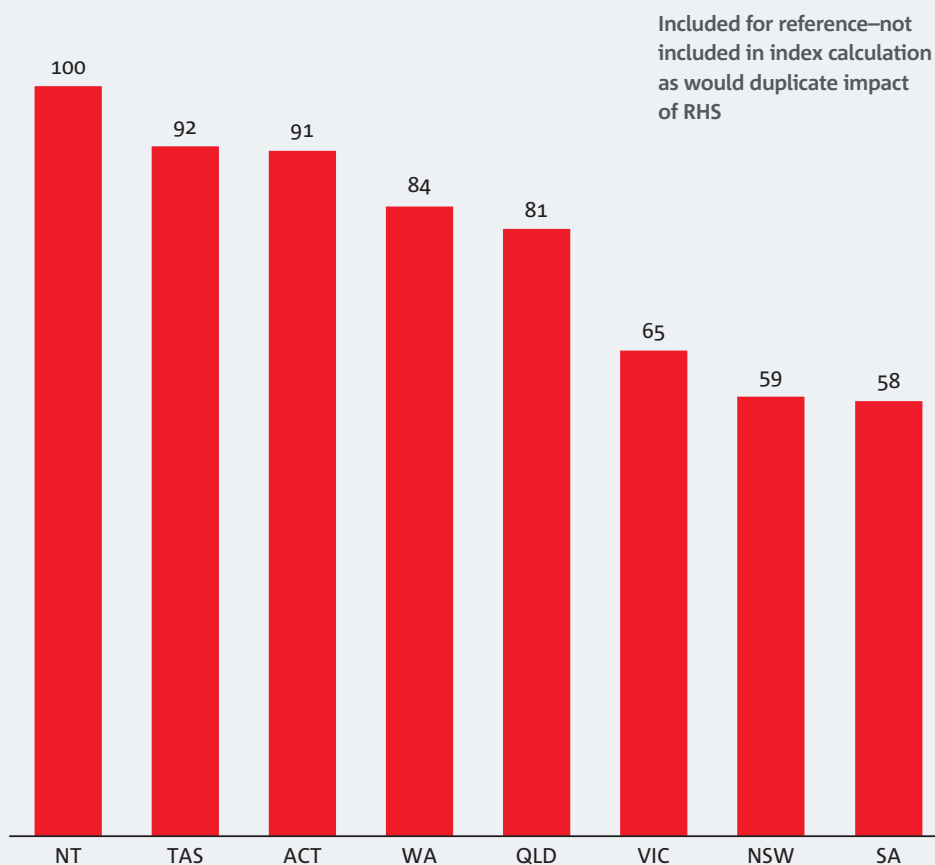
1. Score is a measure of the quantity of startups and other supporting organisations (coworking spaces, accelerators, startup influencers and events); quality of supports based on utilisation, authority or level of influence, customer base, and factors like global brands; and business environment (tech infrastructure, bureaucracy, red tape and the like) and having a critical mass of startup activity.
2. NT not included in source data. Advanced or high digital engagement means small businesses use data analytics to drive decisions, online marketing tools such as search engine marketing, mobile-responsive websites, social media and the like.

Source: StartupBlink(2019), Deloitte (2017), AlphaBeta analysis

SMALL BUSINESS LEADS THE WAY WITH NEW IDEAS IN ALL STATES, BUT WA FIRMS ARE MOST INNOVATIVE WITH 140 PATENTS PER 1K SMALL BUSINESSES SINCE 2010

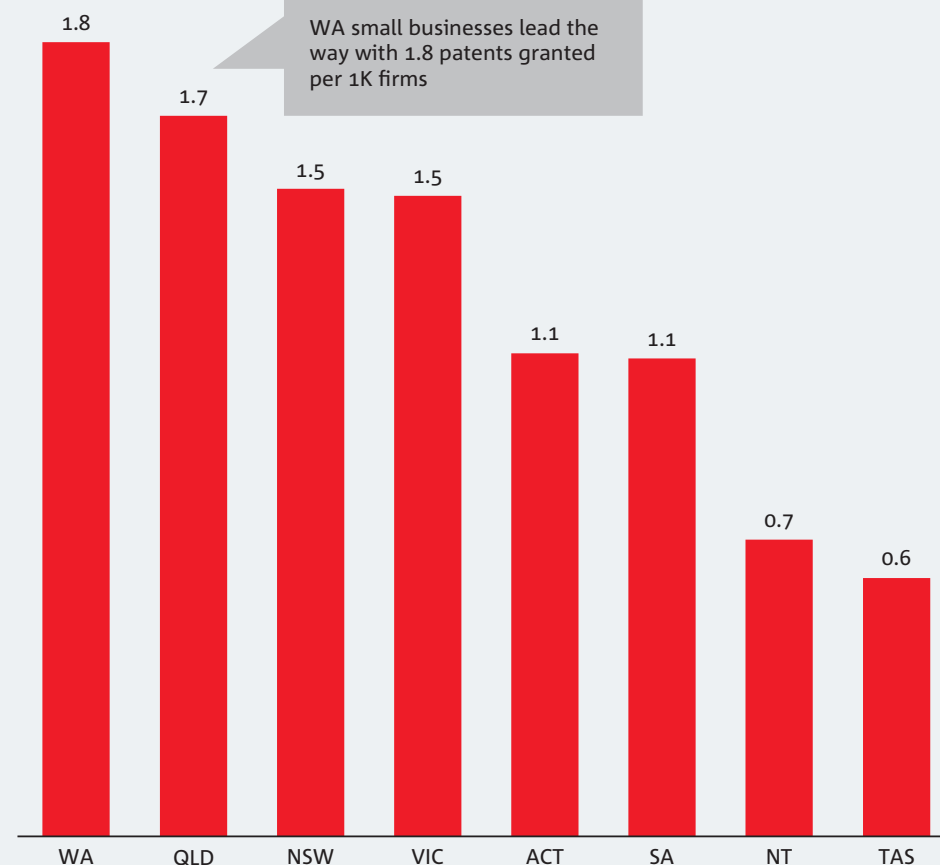
Small business receive over 80% of business patents in 5 states, whereas states like NSW see more big business patents

Proportion of all business patents filed by small business, %, 2010-2018



WA leads the way in small business innovation, with 1.8 patents granted per 1K small businesses since 2010

Number of applications filed by small businesses per 1000 small businesses, 2010-2018



METHODOLOGY: RED TAPE ANALYSIS

Overview

- This analysis measures the cost of time for small business to conduct key compliance in Australia relative to best practice. The cost of excess red tape is the difference between cost of time under these two conditions.
- Red tape and compliance effort varies by sector and by jurisdiction. For example, in countries like New Zealand with unitary government, there may be less duplication of administrative effort. The time spent on red tape is sourced from the World Bank Doing Business database which applies a standard set of assumptions across different countries to determine time to start a business, pay tax, seek construction and property permits, trade across borders, enforce contract disputes and resolve insolvency.

Breakdown of approach

- For each component of red tape, Australia was compared to the worldwide leader with the shortest time to complete compliance. The time difference calculated is multiplied by the average daily earnings of a full time worker to find the cost of this lost time.
- **Starting a business:** New Zealand is the world leader. The time difference is multiplied by the number of new small businesses each year.
- **Paying taxes:** this category includes company, payroll and goods and services taxes, for which Estonia is the world leader. The time difference is multiplied across all small businesses. The analysis also considered time for GST refunds claimed against business expenses, for which Germany is the world leader. The time difference is multiplied across all GST-paying small businesses. The analysis also considered the opportunity cost of time for GST refunds, for which Estonia is again the world leader. It assumed that a shorter refund time means small businesses are able to use the refund to reduce net debt sooner. GST debt was calculated from goods and services expenses data and interest savings were found by multiplying the value of GST refunds secured by the average interest rate that small businesses pay to service debt obligations as reported by the RBA (8%).
- **Development permits:** South Korea is the world leader. The time difference is multiplied across all small businesses seeking development permits. While the World Bank database reports approvals times for warehouses, it has been assumed that most small businesses develop non-residential buildings and that the approvals process is broadly similar for these building types. The number of small businesses seeking development permits was estimated by finding the number of non-residential building development approvals for buildings under \$20 million.
- **Registering property:** Portugal is the world leader. The time difference is multiplied across all small businesses purchasing property. This number was estimated by assuming the number of non-residential property sales is equal to the value of all business investment in buildings divided by the mean residential dwelling price (commercial prices unavailable), then attributing sales to small business in proportion to their GVA contribution.
- **Trading across borders:** Japan is the world leader for exports, and New Zealand for imports. The time difference is multiplied across all small business exporters and importers. ABS provides the number of small business exporters and the number of small business importers was estimated using the ratio from the most recent ABS data comparing the two (2003, 1:2 importers to exporters).
- **Enforcing contracts:** Iceland is the world leader in the cost of enforcing contracts. This cost is derived from legal fees to conduct a standardised legal dispute and expressed relative to income per capita. The cost difference is multiplied across all small businesses engaged in contract disputes. This was estimated from the % of small business engaged in legal disputes 2013-2018 (9%, ASBFEO).
- **Resolving insolvency:** Norway is the world leader in the cost of resolving insolvency. This cost is derived from fees to resolve a standardised insolvency dispute and expressed relative to average insolvency assets value. The cost difference is multiplied across all small businesses entering into administration. This was derived from ASIC reporting.

METHODOLOGY: CALCULATING STATE SUPPORTS INDEX

Index Calculation

Overview

- This report includes a comparison of the barriers and supports small business face in each state to start, run and grow a business.
- Within each category, a variety of indicators covering funding, time for approvals, skills, costs, and access to markets and services have been collected. They are then normalised and aggregated to indicate the top three states for supporting small business in each stage.

Breakdown of approach

- Measures were selected based on key factors driving small business success (skills, cashflow), key types of supports from government (funding, infrastructure), and factors derived from the World Bank Doing Business Index and World Economic Forum Competitiveness Index. Data was gathered on these measures from state government website and budget papers, stakeholder interviews, Census and other ABS data, and third party reports.
- Each measure was normalised following the process adopted by the World Bank Doing Business Index:

$$\text{Normalised value} = (\text{worst value} - \text{actual value}) / (\text{worst value} - \text{best value}).$$
- Measures are then aggregated into the start, run and grow categories.

Selecting Exemplar Small Business Types for Some Measures

Overview

- A few pieces of analysis in this report required input assumptions about small business industries and sizes. For example, the time to register and seek permits was influenced by sector because different business types need different permits.
- This methodology describes how industry and size cuts were chosen for this analysis, and how the outcomes for key small business types were aggregated.

Breakdown of approach

- ABS data was used to determine the most common types of small business, split across sectors;
- **State registrations and permits.** Different registrations and permits are required depending on the type of business. Conditions for the top three sectors nationally (construction, professional services and hospitality) were considered. The sector types were held constant nationally to isolate the effect of process differences. Process time for these business types were calculated and then averaged.
- **Energy costs.** The energy benchmark tool used requires input on subsector, revenue and employee types. The three most common subsectors by employment range were found (carpentry, management advice and consulting, and beef farming firms, all with fewer than five employees). This data is only available at national level. To provide assumptions for the revenue component, the most common turnover range for the above subsectors were used. Costs for these business types were calculated and then averaged.

METHODOLOGY: PAYROLL TAX LIABILITY

Overview

- This analysis estimates the **proportion of small businesses liable for payroll tax**. Payroll tax threshold and rates vary significantly between states, and many have been moving to increase thresholds so fewer small businesses are liable. Payroll tax is chiefly an issue for medium, rather than small, firms.
- The analysis finds the proportion of small businesses above each state's payroll tax threshold by treating payroll as a **product of earnings and number of employees**, then estimating the distribution of firms by employee number to find how many firms have sufficient employees to go over the threshold.
- Because only bands firms distributed by employee numbers are known, as opposed to a continuous distribution, **upper and lower bounds** of the proportion of firms liable are estimated.

Breakdown of approach

- The analysis seeks determine the proportion of small businesses liable for payroll tax under each state and territory's threshold. A firm will be liable if its payroll is above this threshold. The proportion is equal to the number of small businesses over the threshold in the state divided by all small businesses in the state.
- Payroll volume for a firm. Payroll volume is a product of employees and earnings. For this analysis, average weekly earnings for each state were used as an assumption for the latter to simplify variation in earnings by industry (and firm size) and make firm size the key driver.
- **Firm size distribution.** The challenge is to determine the firm size distribution for each state, or how many firms have a certain number of employees. This becomes the key driver of how many firms are over the threshold.
 - ABS data provides firm size distributions by state using the categories 0-4 employees, 5-19, 20-199 and 200+. Due to the relatively high threshold for payroll tax, firms need to have over 20 employees to be liable using average earnings. Meanwhile, all firms over 200 employees will be liable. As such, the number of firms liable is equal to the number of firms with fewer than 20 employees plus some portion of the firms in the 20-199 employee (medium) range.
 - To estimate the distribution of firms along the wide band of employee numbers in the medium firm size category, international proxies are used. In particular, US and European breakdowns of employees in this range were considered. The European figures were selected because they were based on a closer distribution of small, medium and large firms to Australia. This proxy provides breakdowns of firm numbers in the 20-49 and 50-249 employee categories. Though this is not a perfect match with the ABS upper bound of 200 for medium sized firms, there are so few firms in the 200+ category in Australia that this adjustment has little impact. The proxy was used to derive a relative proportion of firms in the 20-49 and 50-199 bands.
 - These proportions were then used to divide the medium sized (20-199 worker) firms in each state.
- **Upper and lower bounds.** Once the number of firms at the 20, 50 and 200 person bars are known, this allows a closer estimate of the proportion of firms in this range over the payroll tax threshold. Payroll tax for a firm at each bars was calculated and compared to the tax threshold. This was used to estimate the upper and lower bounds –for example, if a firm with 50 employees was not liable for payroll tax using the approximations above, there can be no more firms paying payroll tax than the number of firms with more than 50 employees.