

**COVID 19: CAIRNS ECONOMIC RESPONSE AND RECOVERY SUBCOMMITTEE (ERRSC)  
REPORT TO THE LOCAL LEADERSHIP COMMITTEE (LLC) # 2: 27 MARCH 2020**

**OVERVIEW**

Within Australia, Cairns and Tropical North Queensland (TNQ) are clearly one of the regions whose economy has been most heavily impacted as a result of Coronavirus. This was specifically acknowledged by the Prime Minister when announcing the first economic stimulus package on 12 March 2020. A heavy reliance on tourism and already high business operating costs (in particular energy and insurance) means the region's economy is particularly vulnerable. **Tourism Tropical North Queensland (TTNQ) advise that the average daily number of visitors 'in region' at any one time is normally 55,000. Today that figure stands at 1,500.** This means that a Cairns economy that would normally be servicing a population (resident and visitors) of nearly 220,000 is now serving residents only (165,000) and many of these residents have lost their jobs and/or are significantly curtailing spending. There are widespread instances of business closure, staff stand downs and redundancies. Cairns businesses in particular, need the immediate support of all levels of Government so that they can survive this crisis and are in a position to recommence/re-escalate operations and reemploy staff as and when the crisis passes.

**RECOMMENDATIONS**

**The Economic Response and Recovery Subcommittee (ERRSC) recommend the following Business Survival Initiatives be considered for implementation. Further details on each of these initiatives, including the responsible level of Government (Federal, State and/or Local) is set out in Appendix 1.**

- 1. Waiver of public sector taxes, fees and charges for significantly impacted businesses for six months (e.g. April to September 2020).**
- 2. Direct funding support for significantly impacted businesses to enable those businesses to meet key fixed costs (rent, rates, insurance, electricity etc.).**
- 3. For businesses directly impacted by travel bans and social distancing measures significantly restricting operations (tourism, restaurants, cafes, gyms etc.) increase the Boosting Cash Flow For Employers subsidy percentage to 200% of PAYG withheld.**
- 4. Waiver of payroll tax for impacted businesses for the entirety of the 2019/2020 financial year.**
- 5. Direct wage subsidy for significantly impacted businesses to support retention of critical staff during the crisis.**
- 6. Insurance premium cost deferral or support for significantly impacted businesses.**
- 7. Commercial rent support for significantly impacted businesses with 'flow through' support for commercial landlords.**
- 8. Funded business advisory support services for impacted businesses.**
- 9. Develop a reference point/source of information for local businesses on the support packages available.**
- 10. Relaxation of visa working conditions for 'stranded' working holiday migrants and students.**

**A number of the initiatives outlined above represent alternate approaches to supporting cash flow for significantly impacted businesses. Accordingly there may be some overlap between individual initiatives. This is intentional to provide Government with a number of alternatives to consider.**

**The ERRSC will separately report to the LLC on the initiatives required to support business and industry recovery ('post survival').**

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**BACKGROUND**

The ERRSC met on 24 March 2020 and has developed a recommended suite of additional 'survival' initiatives for business and industry that should be considered as an immediate priority by Government (Federal, State and Local) in response to the Coronavirus crisis. It is noted that:

- There are widespread reports and examples of businesses standing down staff and suspending operations in the Cairns region.
- A comprehensive survey of local businesses (conducted **before** the weekend of 21/22 March) confirms the majority of businesses had suffered a drop in turnover of >50% with half of the businesses surveyed indicating they would be reducing staffing levels by 25% or more. The position today is definitely much worse.
- Cairns and the TNQ region are heavily reliant on tourism. TTNQ advise that the average daily number of visitors 'in region' at any one time is normally 55,000. Today that figure stands at 1,500. For context, the Cairns population is approximately 165,000.
- The six month \$550 fortnightly Coronavirus Supplement for Jobseeker (formerly Newstart) and certain other welfare recipients and Early Access to Superannuation initiatives provide a safety net for employees who have lost their jobs/been stood down as a result of the Coronavirus.
- Impacted businesses need further assistance to enable them to 'survive' the crisis. Cash flow is critical to business survival. Accordingly, for impacted businesses, the recommended measures are aimed at:
  - Alleviating business outgoings, in particular core fixed costs such as rent, taxes, rates, energy costs, insurance etc.
  - Funding support for retention of critical staff during this crisis.
  - Ensuring businesses are aware of the support available and funding business survival and recovery planning.
- Whilst the initiatives implemented by all levels of Government to date are welcomed, they do not provide the cash flow and support needed to enable significantly impacted businesses to survive this crisis and be in a position to recommence/re-escalate operations and employment once the crisis has passed. This is highlighted by the worked example set out below.
- Whilst deferral of charges, taxes, costs and loan repayments will provide some benefit to business cash flow, it would mean that many impacted businesses would accumulate significant debt and obligations during this crisis and therefore be unfairly burdened with these liabilities when looking to recommence/re-escalate operations. **Without this assistance, many may never recover.**

**WORKED EXAMPLE – IMPACTED BUSINESS**

*The Facts*

- John and his wife Jane own and operate a restaurant business in Cairns primarily servicing tourists from two premises one owned by the business and one leased.
- The owners do not draw a wage but ordinarily employ 10 staff with an annual staff wages bill of \$600,000 (from which \$120,000 in PAYG is deducted per year).
- As a result of the Coronavirus, the business has temporarily changed its operations to Take Away only, stood down all staff with the business owners the only people now 'working' in the business. Business turnover is down 90% due to the Coronavirus. Business turnover now only covers variable costs (food, consumables etc.).

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- The business has a loan from a commercial bank.
- The business paid its half yearly Council rates bill in late February 2020.
- Key fixed costs that will continue to be incurred by the business include:
  - Electricity (albeit at a reduced level)
  - Insurance
  - Council rates and charges (owned property)
  - Commercial rent (leased property)

*What support could John and Jane access from the initiatives announced to date?*

- John and Jane can apply for \$10,000 to be released from their superannuation for 2019/20 (a further \$10,000 could be accessed in 2020/21).
- The business deducted \$30,000 PAYG withholding for the March quarter. Under the Boosting Cash Flow for Employers initiative, the business gets a \$30,000 credit on its March BAS but because its net GST for the March quarter exceeds \$30,000 there is no BAS refund/'cash back'.
- Whilst outdoor dining fees (Council) for the June 2020 quarter have been waived, the business is no longer able to offer outdoor dining due to social distancing restrictions. The business incurs a number of other Council fees and charges which can be deferred.
- The business cannot access the QLD Government Jobs Support loan as all staff have been stood down.
- The business gets a \$500 rebate off its electricity bill (but is unable to pay the reduced bill).
- The business has been able to defer repayments on its business loan for six months.

*The issue*

Whilst the business has received some support, it does not have the cash flow to cover core fixed costs including electricity, rent, upcoming council rates, insurance etc. After paying out staff entitlements, there is also limited cash to meet the net liability on the business' March 20 quarter BAS (after the \$30,000 credit). John and Jane do not have the funds to get advice from their accountant or lawyer on their current predicament or for developing a plan for business survival recovery.

Rather than accumulating further liabilities trying to continue operating their business until such time as operations can be re-escalated (and staff reemployed), John and Jane are considering permanently closing their business and 'walking away'.

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 APPENDIX 1: RECOMMENDED BUSINESS SURVIVAL INITIATIVES**

It is important that measures be targeted to benefit those businesses significantly impacted by the Coronavirus crisis. What constitutes a significantly impacted businesses would need to be defined. It is recommended that this be identified based on turnover loss due to Coronavirus (e.g. 50% loss of turnover) and be applied to all businesses with an annual turnover under \$150 million. This \$150 million turnover threshold should also be applied to existing measures (e.g. Boosting Cash Flow For Employers). Special consideration should also be applied to businesses operating in those regions (such as Cairns and other tourism reliant regions) where the economy is particularly adversely impacted as a result of travel bans/restrictions and other social distancing measures.

Measure	Level of Government	Comments
1. Waiver of public sector taxes, fees and charges for significantly impacted businesses for six months (e.g. April to September 2020).	<b>Federal</b> - GST - PAYG - FBT <b>State</b> - Land tax - Lease fees to commercial tenants - Energy charges (electricity) - Licensing fees - Commercial vehicle and vessel registration <b>Cairns Regional Council</b> - General rates - Water rates - Business fees and charges - Lease fees to commercial tenants	Supports cash flow for significantly impacted businesses and enables them to restart/re-escalate operations and employment following the crisis without being unfairly burdened with these liabilities.  Energy costs (electricity) are a particularly high operating cost for the majority of businesses in Cairns and Far North Queensland (where competition is limited). With both Ergon and Energex being State owned, there is an opportunity to alleviate this cost on business through direct Government intervention.  See item 4 below for payroll tax.
2. Direct funding support for significantly impacted businesses to enable those businesses to meet key fixed costs (rent, rates, insurance, electricity etc.).	<b>Federal and/or State</b>	Supports cash flow for significantly impacted businesses and enables them to restart/re-escalate operations and employment following the crisis without being unfairly burdened with these liabilities.

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<b>Measure</b>	<b>Level of Government</b>	<b>Comments</b>
3. For businesses directly impacted by travel bans and social distancing measures significantly restricting operations (tourism, restaurants, gyms etc.) increase the Boosting Cash Flow For Employers subsidy percentage to 200% of PAYG withheld.	<b>Federal</b>	This measure would provide directly impacted businesses who have either had to close or significantly reduce their operations with cash flow to support the payment of ongoing fixed costs to assist the business in 'surviving' the crisis and being ready to recommence/re escalate operations and employment post crisis. So if restaurant business had a PAYG liability of \$30,000 for the March 2020 quarter, they would not have to pay that but would also get a further \$30,000 credit through the March 2020 BAS which (depending on net GST) would result in a cash refund to support business cash flow to meet fixed and other costs. A smaller subsidy (e.g. 150%) could be considered for indirectly impacted businesses.
4. Waiver of payroll tax for impacted businesses for the entirety of the 2019/2020 financial year.	<b>State</b>	To provide a similar level of support to that provided by the Victorian State Government, waive all payroll tax obligations for impacted businesses for the entire 2019/20 financial year which would include refunding any payroll tax paid for 2019/20 to date. The current package provides for partial waivers, refunds and deferrals.
5. Direct wage subsidy for significantly impacted businesses to support retention of critical staff during the crisis.	<b>Federal and/or State</b>	A number of businesses significantly impacted by this crisis will have critical staff that need to be retained to either continue operations during this crisis or support the reestablishment/re-escalation of operations following the crisis. 50% of a 'critical' employee's wage should be subsidised to support retention up to a cap (maximum \$ subsidy per employee and scaled maximum number of subsidised employees per business). The German <i>Kurzarbeitergeld</i> compensation scheme provides an example in this regard.
6. Insurance premium cost deferral or support for significantly impacted businesses.	<b>Federal</b>	Either Federal Government support for (similar to banking support) or negotiation with the insurance industry to provide significantly impacted businesses with a six month payment deferral on insurance premiums (no interest) or direct support from Government to enable these premiums to be paid by businesses. The <a href="#">Northern Australia Insurance Inquiry</a> conducted by the ACCC has highlighted the extremely high cost of insurance in our region.
7. Commercial rent support for significantly impacted businesses with 'flow through' support for commercial landlords.	<b>Federal</b>	For significantly impacted business tenants legislative change to prevent landlord evictions for a six month period where these tenants are unable to meet rental commitments and/or specific funding support to enable these commercial tenants to meet rental commitments. If funding support is not forthcoming to enable significantly impacted businesses to meet commercial rental commitments, negotiation with the banking industry to provide repayment holidays for commercial landlords impacted by restrictions on evictions.
8. Funded business advisory support services for impacted businesses.	<b>Federal and/or State</b>	Funding program (scaled based on turnover) for impacted businesses to pay for professional business advice (Accounting, Legal, Financial Planning etc.) aimed at supporting business survival and recovery planning.

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<b>Measure</b>	<b>Level of Government</b>	<b>Comments</b>
9. Develop a reference point/source of information for local businesses on the support packages available.	<b>Cairns Regional Council</b>	Central reference point which summarises the various support packages available from Federal, State and Local Governments as well as support and information available from business groups and industry bodies.
10. Relaxation of visa working conditions for 'stranded' working holiday migrants and students.	<b>Federal</b>	There are a number of migrants and students effectively 'stranded' in Cairns due to travel restrictions. Work restrictions should be relaxed on these visas to enable these visa holders to secure work where it is available. Some employers (e.g. agriculture) are reporting shortages of local workers as they choose the increased 'Jobseeker' allowance rather than working.