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RE: ALNA 2022 Pre-Budget Submission

The Australian Lottery and Newsagents' Association (ALNA) is the national industry body representing Lottery Agents and Newsagents'. There are over 4000+ Lottery Agents and Newsagents in Australia. They are generally family run businesses and are an important and trusted part of Australian communities and approximately 2.5 million Australians shop at their local agency every day.

ALNA appreciates the opportunity to provide insights in our submission on matters that directly affect our members and that would enhance their business capacity if addressed appropriately in the coming budget.

COVID-19 Omicron Impacts

Our members are continuing to deal with the considerable consequences of the pandemic on their businesses. The Omicron wave in January has been particularly difficult for them with customers staying home in an almost shadow lockdown, and government support has all but dried up. Owners are under extraordinary pressure with staff availability a massive problem, costs and overheads are rising rapidly with supply chain shortages exacerbating these issues. Despite this, our members are doing an excellent job to support their communities and to remain open and trading.

The co-ordination of state and federal support for small business has reached a low point in January and the Federal government needs to take a leadership position in this budget to support small business, which is the engine room of the economy. Stress and a lack of certainty in small business we suspect is at an all time high and they are looking to the government to provide them with greater certainty and support in this budget.

A survey of our members in January highlights many of these challenges:

The top issues of concern members had in order were, customer and revenue declines, landlord and lease issues, selling their business, availability of RAT tests, staff availability, stock shortages and availability, small business financial support, rent relief and the economy.

Members reported how they were feeling in their businesses at the moment. Top responses in order included, uncertain, anxious, frustrated, worried, overwhelmed, helpless, hopeful, confused & optimistic.

Members compared how their businesses are performing now with the same general period last year. Nearly 50% said it was worse or much worse, 36% said it was the same, or neutral, and only 14% said it was better.

Members reported how they expect their businesses to perform in the next 12 months. 33% expect it to be worse or much worse, 41% expect it to stay the same and 26% expect it to improve.

We asked members if over the last year they had noticed a change in a range of metrics in their businesses. The top result was increasing costs, followed by less regular customers & less customers walking past.

We asked what changes they had undertaken over the last 12 months to support the ongoing success of their businesses? The top result was diversifying product types at over 50%, and 46% said they had increased marketing, including social media. Nearly a quarter had invested in new shop fits and training for them and their staff or had installed new technology. Around 20% had developed online models or redecorated their stores. Only 15% reported having undertaken none of these, and over 65% reported they are considering undertaking a range of these this year.

We asked members what areas they would like extra training in? The top response was Digital Marketing and social media, followed by developing an online offer.

What does small business need?

Rising Costs, exposed businesses, and financial support - As we have touched on already, costs and overheads are rising rapidly. As you can see from our survey, businesses have already invested in themselves to support their ongoing sustainability, but direct financial support is still required to see small businesses through to the end of Omicron.

Arguments about whose responsibility is it, and whether businesses will fail anyway are irrelevant. Australian small business owners have been exposed like never before through no fault of their own and they should fairly expect a helping hand to give them and their businesses the best chance to see this through.

The current period is the pointy end of the pandemic and small businesses are at risk due to a growing burden of personal leave, deferred rent coming due, higher overheads as a proportion of revenue and rising costs. Existing mechanisms including the Instant Asset Write Off, Loss Carry Back, and lower tax rates are strongly supported but government needs to step up to provide certainty and assistance. Grants to exposed small businesses are the simplest mechanism as small businesses don't have the confidence to borrow again in the current circumstances.

Rising Payment Costs

The cost of accepting payments is a number one or two issue for our members at any given point in time and has been for many years. We have as an association tried to address this important issue by regularly submitting to payments system reviews and other consultations, and by championing the adoption of Least Cost Routing (LCR) by our members. Nonetheless, it can be hard for small businesses to change banks, and many banks don't support or offer LCR and in our view are still taking advantage of small business merchants by not doing so. This is costing them many hundreds of \$dollars more each month than they should otherwise be incurring.

When considering these debit transaction charges levied on merchants, the complexity of the payments system is often used as an excuse to avoid taking the necessary action required to ensure small businesses do not incur unnecessarily high costs.

The issue is not really that complex, even though payments are.

Debit cards that provide access to two payment schemes (a global payments scheme – either Visa or Mastercard – and the Australian payments scheme eftpos) currently default to Visa/Mastercard¹ which charge more than eftpos for the vast majority of debit transactions. The system effectively preferences the highest cost payment option, with merchants in every town and suburb paying more than they should for their debit transactions every day of the year as a result.

If merchants want to move to the lowest cost option for their debit payments, they must navigate a highly opaque, complex, and confusing payments system with their bank which in most cases has little or no commercial interest in offering them the best and simplest deal, in fact the opposite. History clearly shows that this opt-in approach is totally ineffective, with low rates of take-up of least cost routing (less than 10% of transactions). **Furthermore, with mobile devices becoming the preferred means of making debit payments, especially through COVID, the LCR system does not even provide merchants with any choice for these payments at all.**

Puzzlingly, the Reserve Bank's Review of Retail Payments Regulation that we submitted to, recognises this important problem for small businesses, but its Final Report recommends that no action be taken? While contactless payment options are certainly convenient for consumers and have grown even more during COVID given consumers disease transmission concerns, it is small businesses who are footing the bill.

Before contactless disruption started, small businesses had at least a fighting chance at equitable cost structures for accepting payments, but regulation hasn't appropriately kept up and now our members feel they are being preyed on by rent seekers.

With the two higher-cost global payments schemes continuing as the default, and struggling small businesses coming out of COVID needing every dollar of margin they can retain; their costs for payments are skyrocketing and they are forced to deal individually with their banks to access the lowest cost option, which may not even be available, and yet the RBA seem oblivious? This is a lot like the retail electricity sector a few years ago, where providers were ripping off customers with high-cost 'set-and-forget' plans and regulators stood idle until the government ultimately stepped in and took sensible and much needed action, this is what we require now, some fairness. Small Businesses can't be expected to be able to manage this, government needs to.

Independent analysis estimates that if all debit card transactions in Australia used the lowest cost payment scheme, merchants could save **an additional \$1.28 billion annually** in fees. This is serious money for small businesses paying thousands of dollars extra a year in transaction costs.

Here are some relevant examples of the savings our members are achieving with LCR:

¹ The default to Visa/Mastercard is a result of an agreement between the payment schemes at the time of the introduction of dual network debit cards facilitated by the Payments System Board.

A newsagent in Brisbane “We changed to Least Cost Routing in June 2019 and noticed a **decrease in merchant costs of 23%**.

A newsagent in regional SW WA saved **\$700 a month** in the first few months after switching to LCR.

A newsagent in Brisbane saw a **decrease of 35%** on its merchant fees after switching to LCR.

A newsagent in VIC, “I have taken advantage of the Least Cost Routing deal that has seen me **reduce my monthly fees on average by \$300 per month.**”

A lottery agent in VIC **reduced their payment costs by as much as \$2500.00 per year** after adopting LCR.

As you can see, the savings are substantial. The knock-on effect when this money is reinvested in their businesses and into new employees is significant for the economy.

We need your assistance.

So, what we need is very simple. **Change the default from Visa/Mastercard to the lowest cost payments scheme for debit transactions at point-of-sale for cards and mobile devices, as well as for eCommerce transactions.** This will not only save small businesses all around Australia many thousands of dollars a year, but it will also drive price competition and deliver real choice.

We acknowledge that already the Treasurer, the Minister for Small and Family Business and the Australian Small Business and Family Enterprise Ombudsman have all publicly supported reducing the debit transaction costs of small businesses, which we applaud, but the RBA still seems intent on putting hope before reality and ignoring the plight of our small business members.

The Government must now stop this ongoing debit payments swindle of small businesses by changing the default from the two global schemes to the lowest cost payments scheme (for cards, eCommerce, and mobile devices) so that merchants (and ultimately consumers) do not continue paying more than they should for debit transactions, which make up some 70% of all transactions.

Small Business Financial Counselling

Small businesses who find themselves in financial trouble have limited access to Financial counselling services. Most of the services available are funded for consumers and not business owners. Access to free or low-cost financial counselling would support many businesses to resolve issues rather than close their doors, or at least potentially close their doors at the right time. This will also support actions to improve the mental health of all small business owners.

Digital Capacity & Cyber Security

One of the biggest training challenges for small business like ours is how to engage with the digital economy to maximise new sales opportunities. Small businesses need funding to assist them with digitising their businesses and dedicated one on one programs to maximise this potential in their small businesses. This should include eCommerce/web development, social media and digital marketing.

We are also very concerned about the cyber security risk in small businesses. Many people in small business do not have the skills or knowledge to understand and manage these new risks of

operating businesses in the 21st century. We call upon the Government to continue developing comprehensive awareness and training programs for small businesses to address this.

Better support and training for small business owners to lift their capacity and skills to develop their digital economy offers and to educate them and provide tools to deal with the growing cyber security threat are critical.

Insurance

The rapidly increasing cost of insurance premiums and access to suitable cover for all small businesses in all jurisdictions in Australia has become a much larger problem in the last few years. We support the federal government investigating the insurance market for small businesses in Australia and making reforms that would lead to a fairer outcome for small business owners.

Small Business Owner Training / Vocational Education and Training (VET)

The current system is failing; small business needs to be funded for training through their own businesses and sectors. While traineeships are available through RTO's for our staff, it is training our small business owners that is the biggest challenge. Many don't earn any more than their staff and they lack good core small business management and marketing skills. Something as simple as some cashflow expertise can often be the difference between success and failure for some small businesses and their staff. Access to funded Cert 3 & 4 training and specific skillsets for small business owners would make a considerable difference to the success of small business owners.

Fund an ongoing national mental health plan focused on small business owners.

ALNA recognises that significant resourcing has been applied to small business mental health recently as it is a significant challenge for many in our small businesses as a result of COVID. With the various pressures and stresses they face from the pandemic; small business owners and their staff are particularly vulnerable and don't have a supervisor looking out for them. The Budget should invest in an ongoing permanent national mental health plan focused on people working in small business. This would not be a significant burden on the budget and would enhance existing initiatives and support people in small business to understand what is available and to easily gain access to services.

Competition Policy & Merger Law

A budget allocation to quickly review some aspects of Competition Policy & Merger Law should be a priority and is important to ensure the country has the businesses and resilience necessary to manufacture and supply itself with essential items and services, as global free market models have proven to be vulnerable.

Reforms should also look at ensuring that small businesses who through no failure of their operations or management may have been damaged by the pandemic, are not able to be targeted by cashed up opportunistic bigger players as a result of COVID-19. Competition policy in Australia needs to now be about people and community.

A concern is jobs and marketplace dynamics. If small business is to bounce back in any effective way some steps need to be in place to allow small business to survive in the new environment. Some such steps may be seen to be contrary to competition policy as we know it but that may be the price for small business survival.

Regulatory conundrum

As we move now towards a post COVID period there is a likely scenario that small business will suffer as compared to bigger businesses. Markets have changed and will continue to change, and some rethinking of traditional concepts will be needed.

One serious issue is that many small businesses are simply a pipeline for suppliers of goods and services, whether the small businesses be distributors or agents. This is the case for Newsagents and Lottery agents.

It has long been an issue that suppliers compete with their distributors/agents and often offer better terms to customers. Competition agencies will usually view that as pro-competitive or in the case of agents as not in competition with their principals, although the Flight Centre case shows that some agents do compete with suppliers.

Post COVID many small businesses will not survive if suppliers aggressively and unfairly compete. In pure competition policy this may be seen as bad luck as consumer welfare is the main test. That may be in a normal market, but markets are not normal and will not be normal for some time.

If suppliers are the only businesses to survive, we will almost have a monopoly /duopoly society and little choice or access to products. There are some regulatory steps that should or could be considered to overcome possible problems, some can be sunsetted.

Unfair Contract Terms

The Government has been considering enhancement of the UCT law and has extensively consulted on the proposals and has had general approval to its proposed changes. This issue is important, this process must be sped up. This could be done unilaterally and fast.

Unfair Practices

The ACCC has floated the possibility of having certain unfair practices made unlawful; the ACCC should be asked now what such practices might be, and the Government should consider with a view to prompt adoption.

Misuse of Market Power

The provision was amended in 2017 partly to assist small business. This has not worked. There has only been one case to date and that is against a major Tasmanian utility. None against major market players who have the power to damage small businesses.

The previous section included provisions that covered damage to competitors, the new section only prohibits conduct that substantially lessens competition, the new provision will seldom apply where particular small businesses are damaged.

We suggest that the previous tests be adopted for a period of 2 years. Some will say that that will prohibit conduct that is pro-competitive, correct, but the climate is such that that might be warranted.

The previous test included the following,

- (a) eliminating or substantially damaging a person, being a competitor in that market or in any other market of the corporation or of a body corporate related to the corporation.
- (b) preventing the entry of a person into that market or into any other market; or
- (c) deterring or preventing a person from engaging in competitive conduct in that market or in any other market.

Where what might be pro-competitive conduct that the law might prohibit, the ACCC should have the power to authorise on public benefit grounds with the survival of small business to be deemed to be a public benefit. All such radical policies can be sunsetted.

Agents

In many cases large companies damage their retail outlets but the law may or may not apply as agents may or may not be in competition with principals. It is a case-by-case analysis, as indicated by the High Court in the Flight Centre case. However, it is hard for small businesses to know which and principals constantly consider their distributors to be agents and treat them accordingly.

If businesses are true agents, the competition provisions are unlikely to apply.

It is suggested that there be a rebuttable presumption that agents are in competition with their principals. This will condition the behaviour of principals unless there is no doubt that their outlets are agents.

Mergers

We sympathise with the ACCC concern that mergers are being closed that might damage the Australian economy. We suggest that there be an urgent review of current merger law and maybe move to mandatory merger pre-merger clearance, subject to a threshold test.

Price Control

This is the horror of pc economists but must be part of any post Covid options, some industries will have fewer players and price control is a possible option. An issue though is that the Commonwealth lacks such power, but the States and Territories have such power, Feds can have price surveillance but no more. Such controls should only involve monopoly businesses. Any policy must be so crafted to avoid damaging small business but price controls on say airlines and utilities may be warranted.

Mandatory Safeguards

Consideration needs to be given to build in some mandatory safeguards in some industries to protect for “disasters”. Travel insurance should be mandatory for all international travel for example.

There will be other areas where mandatory safeguards might be warranted. We impose mandatory third-party insurance, and we should not shy away from mandatory protections despite the cost to the consumer.

Illicit Trade Enforcement & Tobacco excise impacts on retailers

Illicit tobacco has long been a silent contributor to the loss of revenue within small business retail outlets, masked by disproportionate tax increases, unit sales continue to tumble with illegitimate business models becoming more prevalent within all Australian communities in recent times.

With the cost of tobacco products in Australia being the highest in the world and the gap between the cheapest available legitimate product and that of a pack of illicit product being so wide (often 2-3 times cheaper), it is one of the largest threats to small businesses who rely on the Tobacco Consumer, and it undermines the governments’ purpose and consumer disincentive of excise increases.

The illicit tobacco market remains extremely high, accounting for greater than 20% of the Australian market. As a result, we are continuing to see an explosion in uptake and authorities not being ahead of a potential increase in this criminal activity. This will have catastrophic consequences to small businesses, who are still struggling with a very difficult start to 2022.

In its simplest form 1 in 5 packs sold are:

- Unregulated (no consumer standard oversight – non tamper etc)
- Un taxed – Costing the federal government in total \$4 billion per year
- Taking revenue from legitimate business
- Funding Organised Crime both locally & Internationally
- Undermining anti-smoking policy positions

We believe it would be very helpful for the broader Community if the Government would enact reform that gives accountability to all businesses across the supply chain to ensure the highest level of product integrity.

The ultimate goal of the broader retail industry is to have a National Illicit Tobacco Strategy that is centrally governed and includes measures that are seamless across states lines. This will make sure that efforts to combat illicit trade are efficient and effective and that organized crime that is benefitting from this highly profitable and relatively risk-free trade currently, is not given a free ride. However, to bring this type of reform to fruition, the federal government needs to take the lead in responsibility.

We call on the federal government to request that the Commonwealth Department for Home Affairs develop a National Illicit Tobacco Strategy.

The key elements to the National Illicit Trade strategy would include:

- Consistency in enforcement across all states (legislation and policy) with clear roles and responsibilities/appropriate resourcing for retail enforcement across the whole of Australia and its territories.
- Nationally harmonised powers to issue penalties for criminal activity at a retail and wholesale level above the existing statutory powers of health departments in some states.
- Implementing a simplification of enforcement framework for local police to work with both the Home Affairs and state health departments – including issuing on the spot fines for retail breaches.

Additionally, the most effective way to create a harmonised system of product accountability at a national level, is the introduction of a blockchain technology system which the industry gauges would provide the strongest domestic tobacco supply chain oversight in the world.

In our opinion, these requirements would ideally sit in a central system within The Department of Home Affairs, which would provide federal law enforcement a real-time view of valid importers, wholesalers, and legitimate retailers, this would include offences by participants in the supply chain that immediately block them from any participation in the market.

The continued implementation of steep annual 12.5% tobacco excise increases has also compounded this problem leading to the attractiveness of the illicit trade in tobacco products. We are firmly of the view that the effectiveness of these excise increases has now well and truly run its course in encouraging long-term smokers to give up and it is now hurting retailers more than it is providing preventative health outcomes as it is simply re-directing the market to readily available cheaper alternative illegal supply. We recommend the government re-think any future excise increases and to now target illicit supply and education as effectively as possible.

Superannuation & PAYG Tax

ALNA supports removing employers from the superannuation administration and collection process and placing it in PAYG. This will ensure it is possible to pay very regularly if small businesses choose, also ensuring flexible cash flow management.

As a simplification and removal of red tape, and in return for the efficiency dividend from removing employers from superannuation administration, reset the monthly super payment threshold from over \$450 to from \$1. This will reduce complexity and recognizes that more people are working multiple jobs.

A huge problem for small businesses in all sectors is labour shortages. Improve tax structures for people in casual employment who may work 2, 3 or 4 casual jobs, or those on a pension to make up full time employment would enhance incentives to work when due to COVID access to staff is at an all-time low point and this will soon put pressure on wage costs. Small business relies heavily on these casual workers.

Ensure that annual concessional superannuation contribution caps and lifetime non- concessional super contribution caps are sufficiently flexible and attuned to the needs of small business owners who are transitioning to retirement.

Workplace Relations

Acknowledging the positive work done already to reform Workplace Relations to match the needs of a COVID recovery, we support developing simplified small business award structures wherever possible that make life simpler for both small business owners and their employees to be protected and to understand their roles and obligations. This needs to consider the differences between small and large employers, as well as using plain English in awards and agreements and replacing language like “penalties” with more constructive options like “additional working hours incentive” that demonstrates partnership between employee and employer.

Clarity for small business owners with COVID mandates for their workers – The government needs to ensure that if small businesses take reasonable care to protect their employees, mitigate risks in their workplace and consult properly with their employees, they will not face court action down the line as a result of these actions.

Domestic Violence Leave (DVL) - Employers should not be expected to pay for this additional leave, and the model should not exclude employers who may be victims themselves. Small Business Owners are after all people too. We call upon the Government to support small businesses to support those suffering from domestic violence through a domestic violence leave scheme funded for small business. This must include access to leave for those who run small businesses who are the victim.

Paid Parental Leave - Our members are supportive of the Paid Parental Leave scheme. Nonetheless, the compliance regime applies to all employers, no matter the size of your business or the number of staff you have. Our members support further simplification of the compliance regime and wherever possible removing the burden of this from small business owners.

Removal of pay clerk responsibilities for Government maternity leave - Small businesses should not be required to be the pay clerk for maternity leave funded by the Government. This leave should be

paid directly by the Government to the mother, removing an administrative burden on small businesses. This payment is complex for small business accounting and creates difficulties for small business owners.

Access to Finance (Revenue Contingent Loans), supporting young people and Payment times for Small Business

ALNA strongly supports the recommendations made by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) on revenue contingent lending for small businesses coming out of COVID.

Ensure access to equitably competitive finance, make sure banks fairly manage small business loan risk, and support strong competition between banks so that interest rate cuts flow through to small businesses.

Ensure vulnerable small business lenders are not taken advantage of by banks with substantial market power.

Supporting young people with limited access to equity - Many young Australians are working in viable small businesses in our sector who are passionate about them and retail and who would consider successfully taking them over from exhausted owners who are looking for alternative viable exit solutions if they could access amounts of capital to do this. Recent research conducted for us by UTS Business school indicates that access to capital like this could save many small businesses like these from closing unnecessarily and would enhance employment and positive industry performance outcomes. Largely the barriers are due to the lack of home ownership amongst young people. This is an equity issue as young people who don't have access to their parent's equity are unable to enter the small business market. Only those from wealthy families have access to these opportunities creating a small business 'opportunity gap'. The government should guarantee start-up investment loans for young people that are revenue contingent to achieve this.

A consistent code of conduct for timely small business payments is essential and we support this.

Establishing a COVID-19 retail industry structural re-adjustment fund

Newsagents and Lottery agents broadly speaking have again proved their resilience and capacity for change during the pandemic. Nonetheless, many are suffering in a very difficult start to 2022 which compounds impacts already absorbed over the last two years. Given the disruption of employment and much more aggressive and rapid shift to online retail sales that occurred as a result of COVID-19 in this country, now is an opportune time for the government to strategically support and address structural reform opportunities in the retail sector.

The sector is reaching a peak point in its structural reform as it is impacted by online and many online businesses are also maturing. This provides a unique opportunity over the next few years for the government to provide effective support to industry bodies and strategic working groups of exposed suppliers who are endeavouring to provide leadership in this employment intensive sector to deliver positive resilient outcomes for both business owners and employees. Strategic support would assist us in more effectively navigating these reforms and would enhance employment outcomes which are critical to the economy through re-training and technological adjustment and reinvestment.

Establishing sector specific industry structural re-adjustment funding to support training and industry strategic planning would provide mature sectors like ours the opportunity to enhance omni channel and physical service models which can deliver more resilient industry models for the future and enhance employment outcomes as we recover from COVID.

Thank you for your valuable time to consider these vital issues for our membership.

Yours sincerely,



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