



# Submission to the Commonwealth Government COVID-19 Response Inquiry

Australian Industry Group

**December 2023**



# Introduction

The Australian Industry Group (Ai Group®) is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for 150 years.

Ai Group and partner organisations represent the interests of more than 60,000 businesses employing more than one million staff. Our membership includes businesses of all sizes, from large international companies operating in Australia and iconic Australian brands to family-run SMEs. Our members operate across a wide cross-section of the Australian economy and are linked to the broader economy through national and international supply chains.

Ai Group welcomes the opportunity to contribute to the Commonwealth Government COVID-19 Response Inquiry.

This submission focuses on the experience of Australian businesses – particularly the approximately one million businesses with employees<sup>1</sup> – during the acute phases of the Covid pandemic in 2020 and 2021.

These businesses were forced to contend with the most challenging operational environment in living memory, managing both the impacts of the pandemic and the public health measures put in place to contain it.

At a time of extreme social and economic stress, business played a critical role in keeping Australian supply chains open, ensuring continuity in essential services and infrastructure, and protecting the jobs of the 11 million Australians<sup>2</sup> employed in the private sector.

Australia's ability to successfully navigate the acute phases of the pandemic, and then emerge into a strong post-pandemic recovery, depended on the resilience and adaptability of our businesses.

The challenges of the COVID-19 pandemic were extraordinary and will hopefully not be faced again. However, it is crucial that if we face a similar disruptive event in future – whether that be of a public health or other cause – that we have learnt lessons from the experience of 2020 and 2021.

Of particular importance are lessons for how governments can support business to flexibly maintain operations, and preserve employment relationships, during a period of abnormal and unexpected societal disruptions.

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<sup>1</sup> In the June quarter of 2020, there were 2.31 million operating businesses in Australia, of which 873,343 were employing. By the December quarter of 2021, the number of businesses had increased to 2.45 million, and employing businesses to 1,013,714. See Australian Bureau of Statistics, *Counts of Australian Businesses, including Entries and Exits*, Datacube 12, <https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release>

<sup>2</sup> In February 2020, there were 11.1 million employed people whose main job was in the private sector. This has subsequently risen to 12.1 million by August 2023. See Australian Bureau of Statistics, *Labour Force Australia Detailed*, Table 26b, <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release>

**Ai Group recommendations to assist businesses to better manage future responses to major disruptive events, including pandemics:**

1. **The importance of a nationally consistent approach to communication.** Businesses, employees and the public require clear and consistent communication. This must be coordinated between different levels of government to avoid competing messages or contradictory approaches. single portal/source of information and workplace guidelines
2. **Consider business continuity in policy.** Responses to major societal disruptions should take business continuity considerations into account and involve consultation with business to ensure policy is designed in a way that minimises continuity impacts.
3. **The importance of open borders.** Closures to international and/or domestic borders disrupt the flow of goods, services and workforce in complex and damaging ways. Border closures should be a measure of last resort, and maintained for only as long as strictly necessary.
4. **Provision of financial support.** During mid-2020, the JobKeeper program was instrumental in supporting businesses' operational and workforce continuity. Suitably-calibrated financial support programs are an essential component of policy responses to societal disruptions.
5. **Focus on supply chain resilience.** Interruptions to national and global supply chains at times had as much of a negative impact as public health measures. Providing support to business for supply chain diversity before, and resilience during, societal disruptions is essential.

## **1. The COVID-19 pandemic in Australia**

The COVID-19 pandemic emerged in Wuhan, China, in December 2019 and began to spread to other countries from January 2020. Australia experienced several waves of COVID-19 infections and control measures. The first wave (March to May 2020) saw small numbers of infections and strict activity restrictions in all states. In the second wave (July to October 2020), almost all COVID-19 infections were in Melbourne, Victoria. A third wave associated with the Delta variant occurred during winter 2021, with infections and public health measures concentrated in NSW and Victoria.

However, international and interstate border closures, travel restrictions and various activity restrictions affected businesses and communities between March 2020 and February 2022.

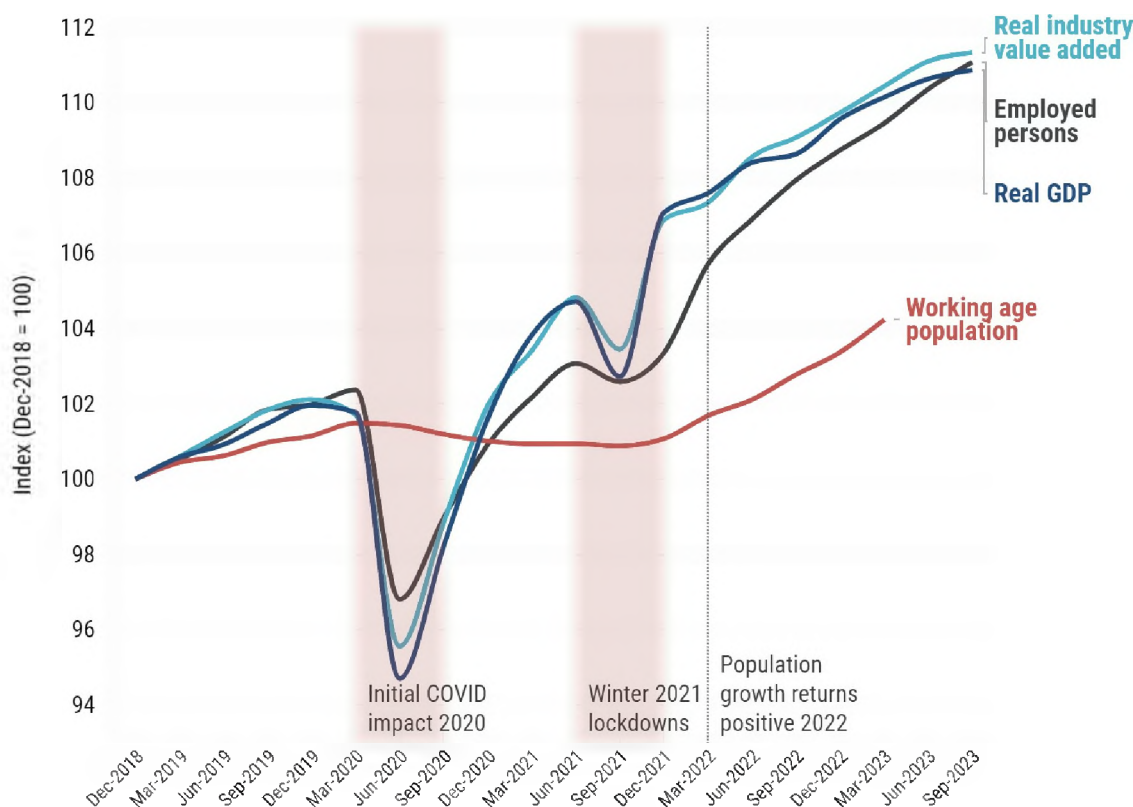
The COVID pandemic resulted in Australia's first recession for almost 30 years. Core macroeconomic measures in Figure 1 below show the pandemic had two periods of acute impact on the Australian economy:

- An initial downturn in early-2020, associated with the first adoption of public health measures at the national level. This saw employment, industry value-add and real GDP each fall by approximately 6 percent in the June quarter, followed by a recovery phase through early 2021.
- A second downturn in winter 2021 associated with the adoption of public health measures in NSW and VIC in response to the Delta wave. This saw a smaller (~2%) decline in economic activity in the September quarter, also followed by a recovery phase.

Australia's closed international border also impacted the aggregate size of Australia's labour force. The closure of the international border from March 2020 reduced the supply of new migrants, resulting in Australia's working age population declining by 100,000 people (or 0.6%) by the third

quarter of 2021. Normal growth in the working age population would only return following the reopening of the international border in early 2022.

**Figure 1: Australia's economic performance during COVID**



Source: ABS National Accounts, ABS LFS, ABS NSTP • Ai Group Research & Economics

## 2. Ai Group business data on business experiences during the pandemic

During the acute phases of the pandemic in 2020 and 2021, Ai Group worked intensely to support our members to manage and adjust to changing business and social conditions. As part of this work, we conducted research to understand, in real time, the impact of the pandemic and its associated public health measures on our members.

Ai Group Research & Economics collected information on the business impacts of the pandemic as part of our regular survey research and business liaison programs. Between March 2020 and October 2021, we collected a dataset of 4193 pieces of qualitative data from Australian businesses on their experiences during the pandemic.

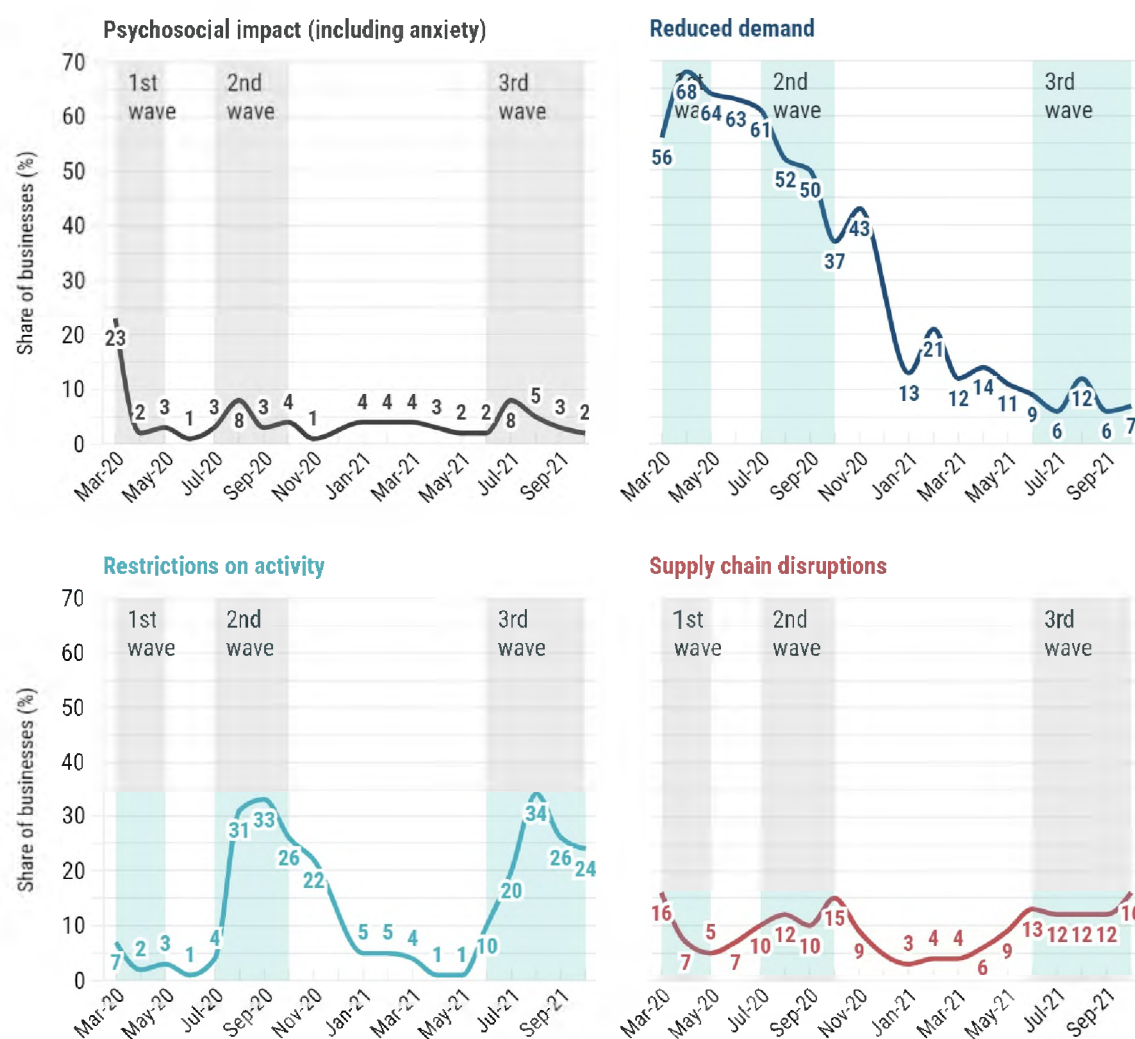
The data describes: (a) the impact of both the pandemic and its associated public health measures on businesses; (b) the changes to operations implemented in response by businesses; and (c) the forms of support required by businesses to implement these operational changes.

Monthly data collection means this Ai Group dataset provides fine-grained resolution on how business experiences of the pandemic changed month-to-month during the acute phase of the pandemic. The following sections use this data to examine how business impacts, responses and support needs evolved during this twenty-month period.

### 3. The impact of pandemic and activity restrictions on business operations

The effect of the pandemic on businesses was initially overwhelming, and it had an adverse effect on operations throughout the following two years. As the first public health measures were put in place, some 90% of businesses reported to Ai Group a negative operational impact of some kind in April 2020. Negative business impacts attributed to the pandemic were reported throughout the remainder of 2020 and 2021, with spikes in reporting rates associated with the second (Q3 2020) and third (Q3 2021) COVID waves.

**Figure 2: Negative impacts of pandemic on Australian business operations**



Source: Ai Group business liaison data • Data is collated from comments received in various Ai Group business surveys (n=4193) conducted between March 2020 and October 2021. Values present share of businesses referencing the identified impact during the surveyed month.

The four most commonly reported negative impacts on business were:

1. **Psychosocial impact and anxiety.** This initially had a major impact on business, particularly the challenge of managing high levels of anxiety within workforce as public information rapidly changed. In March 2020, 23% of businesses reported uncertainty and staff anxiety was adversely affecting business operations. The announcement of the JobKeeper wage subsidy in April 2020 went some way to relieving these pressures, and levels of reported

uncertainty/anxiety decreased thereafter. However, a small number of businesses (~2-4%) continued to report this factor as an issue each month for the remainder of the pandemic, with spikes occurring during each of the various Covid waves.

2. **Reduction in customer demand.** Most businesses reported sales and orders dropped in the early stages of the pandemic as uncertainty about death, illness and ongoing conditions dominated concerns. In April 2020, 68% of businesses reported declining demand conditions, which fell to 43% of businesses per month by the end of the year. Business continued to report lowered demand throughout the rest of the pandemic, albeit at lower incidence rates (6% to 21% per month) in 2021.
3. **Activity restrictions.** Periodic lockdowns at a city- or state-level had a major impact on business operations throughout the pandemic. Restrictions on conditions, particularly regarding workforce capacity – the proportion of the workforce allowed on site at one time – hindered business operations. The number of businesses whose operations were impacted by activity restrictions was normally a few percent per month across the pandemic, but surged to around one-in-three during the second and third waves.
4. **Supply chain disruptions.** These began impacting businesses very early in the pandemic, with one in six businesses affected per month at peaks during the first and second waves. The incident of supply chain disruptions declined over the summer of 2020-21, before increasing again during the third wave in winter 2021. In 2020, business reported that supply chain disruptions were mostly associated with activity restrictions preventing normal logistics operations. By 2021, international factors associated with shortages in total supply (rather than domestic logistical interruptions) were being reported as the leading factor.

#### **4. Business responses to COVID-19 and subsequent activity restrictions**

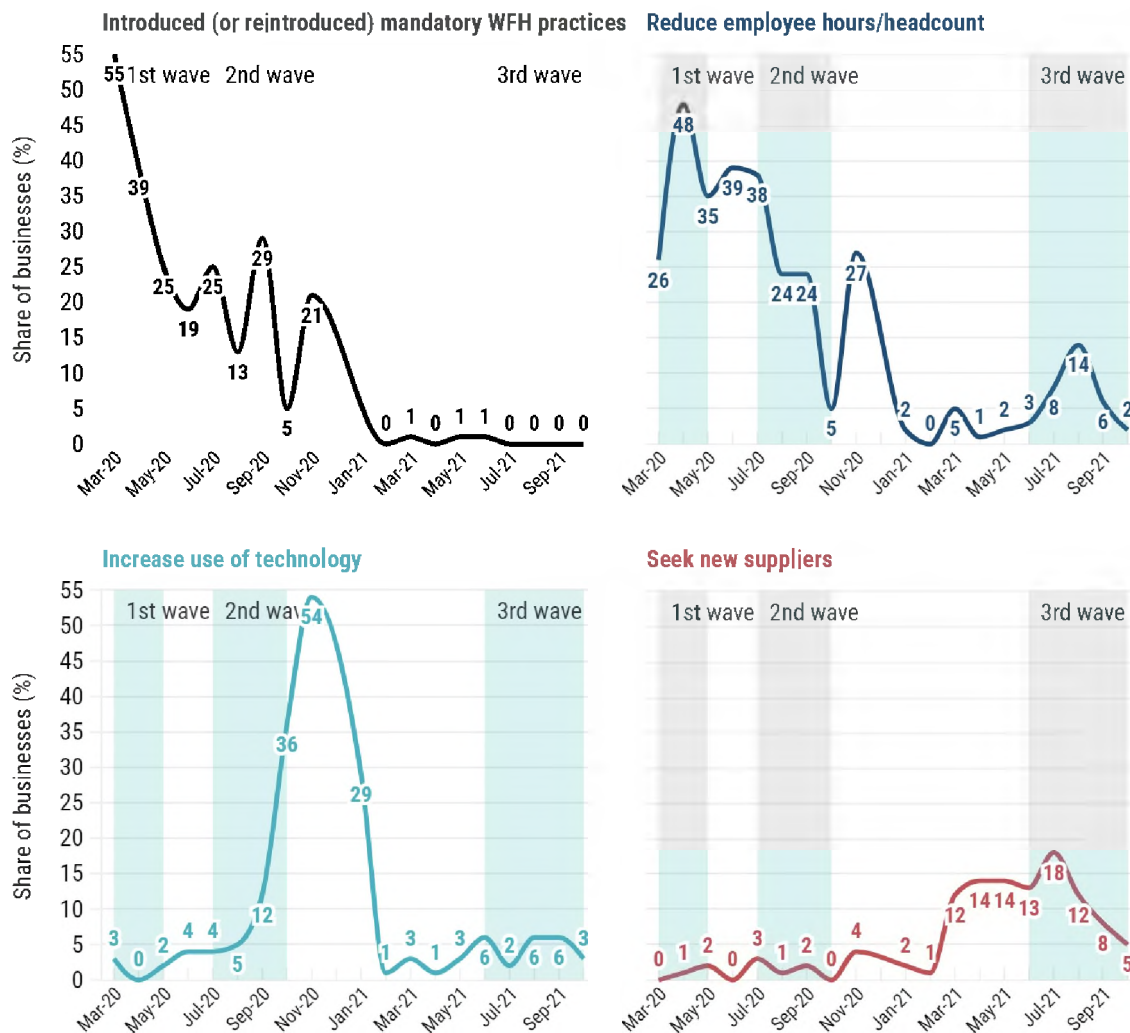
To adjust to the impacts of both the pandemic and its related public health measures, Australian businesses implemented a number of operational changes (Fig 3):

1. **Mandatory working from home** for some or all staff was introduced as an initial response by 55% of businesses in March 2020. This reflected the high degree of uncertainty in the early stages of the pandemic. For the remainder of 2020, around a quarter of businesses introduced or reintroduced work from home (WFH) practices each month. By the 3<sup>rd</sup> wave in mid-2021, WFH had become an established business practice, and did not have to be reintroduced.
2. **Home schooling mandates** added unpredictability and complexity to the working environment and reduced the separation of work and homelife. Some but not all employees were required to take on additional caring responsibilities during various restriction periods. Employers were faced with difficult choices in accommodating reduced productivity while supporting their employees during a period of high stress and competing priorities.
3. **Reduction in employee hours and/or headcount.** As activity restrictions were introduced in early 2020, a large share of Australian businesses were forced to reduce employment – as many as 48% of respondents in April 2020. The introduction of the JobKeeper program from the second quarter of 2020 reduced the number of businesses reporting employment reductions throughout the rest of the year. A small uptick in employment reduction (to 14% of businesses in August 2021) occurred during the third wave.



4. **Increased investment in technology.** Businesses adopted basic technology practices (such as video conferencing) within weeks of the pandemic. However, more substantive technology investments were made during the second wave, as businesses recognised the need to make broader technological changes to their operational processes to facilitate WFH. Ai Group data shows that this phase of deeper technology change occurred in late 2020/early 2021.
5. **Seek new suppliers.** During the initial supply chain disruptions in 2020 caused by domestic activity restrictions, businesses had few options to diversify their supply chains. However, during the second phase of supply chain disruptions in 2021 – which was associated with international logistics interruptions – businesses more actively sought to diversify their supply base. Throughout the middle of 2021, around one-in-six businesses per month reported active efforts to find new supply partners.

**Figure 3: Australian business responses to the pandemic**



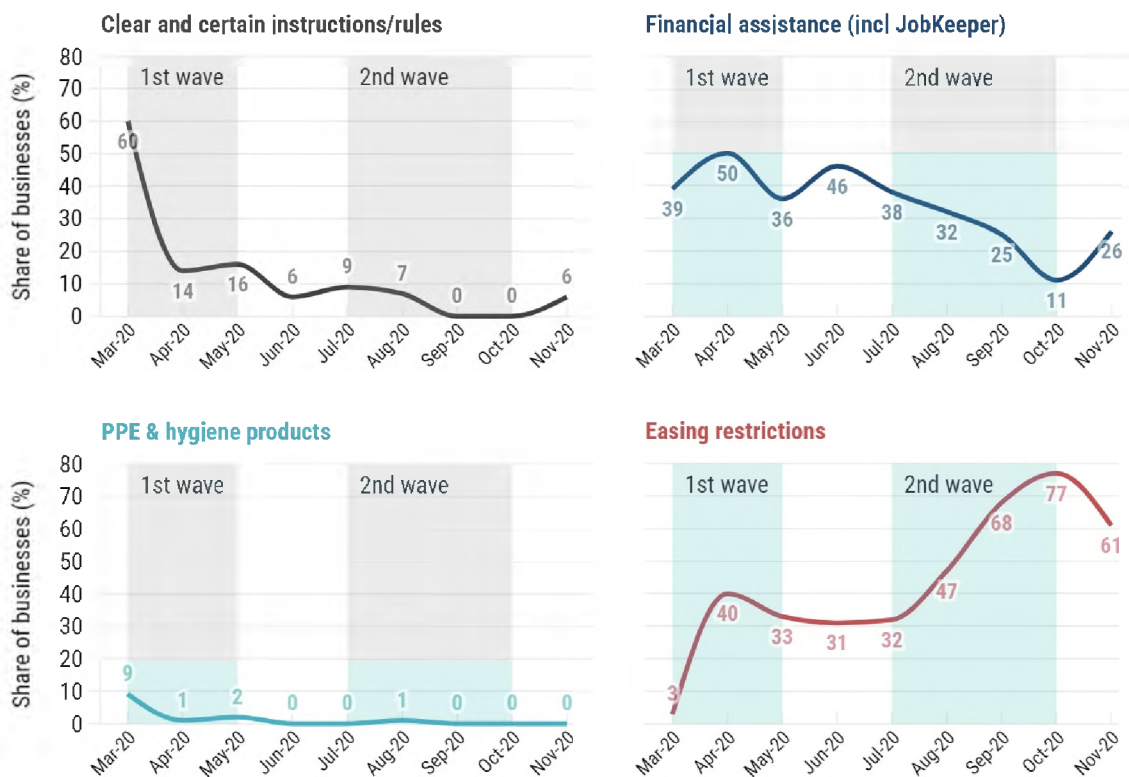
Source: Ai Group business liaison data • Data is collated from comments received in various Ai Group business surveys (n=4193) conducted between March 2020 and October 2021. Values present share of businesses referencing the identified response during the surveyed month.

## 6. Business assistance requirements during 2020

At the start of the pandemic, the goodwill from businesses in reducing infection rates, keeping staff, suppliers and customers safe, and calming their workforces cannot be understated. During 2020, businesses indicated to Ai Group they had three primary requests for Government assistance:

- Clear and consistent information.** The lack of clear and consistent information from various Government agencies, often contradictory, contributed to uncertainty. 60% of businesses in March 2020 reported to Ai Group they needed clearer instructions and rules. By the second wave in mid-2020, improved government messaging ensured that the number of businesses requesting clearer instructions per month had fallen to single digit percentages.
- Financial assistance to ease cash flow pressures.** By April 2020 cash flow became a major business concern, with 50% of businesses reporting they needed financial assistance. The number of businesses reporting they required financial assistance decreased following the introduction of JobKeeper in April 2020, but remained significant – around a quarter to a third of businesses per month – for the remainder of 2020.
- Easing restrictions.** Strict activity restrictions, particularly the limits imposed in Victoria, greatly inhibited trade, movement of staff, and the ability for businesses to operate efficiently. During the first half of 2020, around one-third of businesses needed restrictions to ease to operate effectively. This rose to around three quarters in October 2020, as activity restrictions which had been in place for several months made it difficult for many businesses to continue trading.

**Figure 4: Pandemic-associated business assistance requirements during 2020**



Source: Ai Group business liaison data • Data is collated from comments received in various Ai Group business surveys (n=1899) conducted between March and November 2020. Values present share of businesses referencing the identified assistance requirement during the month.



One area where business indicated they required lower assistance was the provision of Personal Protection Equipment (PPE) and hygiene products. There was considerable government effort – particularly from state governments – oriented towards the supply of PPE during the early phase of the pandemic. While this was certainly critical for the health system and continuity in other public infrastructure, it was of relatively less importance for business continuity. Only 9% of businesses reported a need for PPE support in March 2020, a figure which declined to negligible levels thereafter.

## 7. The JobKeeper Payment scheme

Many businesses were affected by the sudden onset of the pandemic. Some were unable or greatly constrained in their ability to trade due to activity restrictions. Others faced sharp falls in revenue due to restrictions affecting their suppliers or customers. Very high levels of social and economic anxiety saw general economic conditions decline precipitously, evident in the 6% fall in real GDP in the June quarter of 2020.

As a result of these dynamics, many businesses began shedding labour in the early phases of the pandemic. During the month of April 2020, some 48% of businesses reported to Ai Group they were reducing either employee headcount and/or hours.

The Commonwealth introduced the JobKeeper Payment scheme on 30 March 2020. The scheme offered a wage subsidy of \$1500 per fortnight per employee to businesses and not-for-profits to maintain employment relationships. A set of eligibility criteria based on an actual or anticipated fall in turnover determined which enterprises could qualify for the wage subsidy; alongside rules for employee eligibility and the handling of other employment-related payments (such as paid parental leave and workers compensation).

The JobKeeper Payment Scheme was critical in ensuring businesses could continue normal trading during the first acute phase of the pandemic. At its peak in the third quarter of 2020, JobKeeper was supporting an estimated 900,000 businesses and 3.5 million workers<sup>3</sup>.

Ai Group data shows that JobKeeper was correlated with positive improvements in business resilience:

- 50% of surveyed businesses reported a need for financial assistance in April 2020. The number reporting this need began to decline from June, and had fallen to only 11% by October 2020. (Figure 4)
- 48% of surveyed businesses reported reducing employment in April 2020. The number reporting this response also began to decline from June, and had fallen to 5% by October. (Figure 3).

Consistent with the findings of several macroeconomic studies<sup>4</sup>, this business-level Ai Group data indicates that JobKeeper was critical in supporting businesses to maintain their employment relationships with their workforces throughout 2020.

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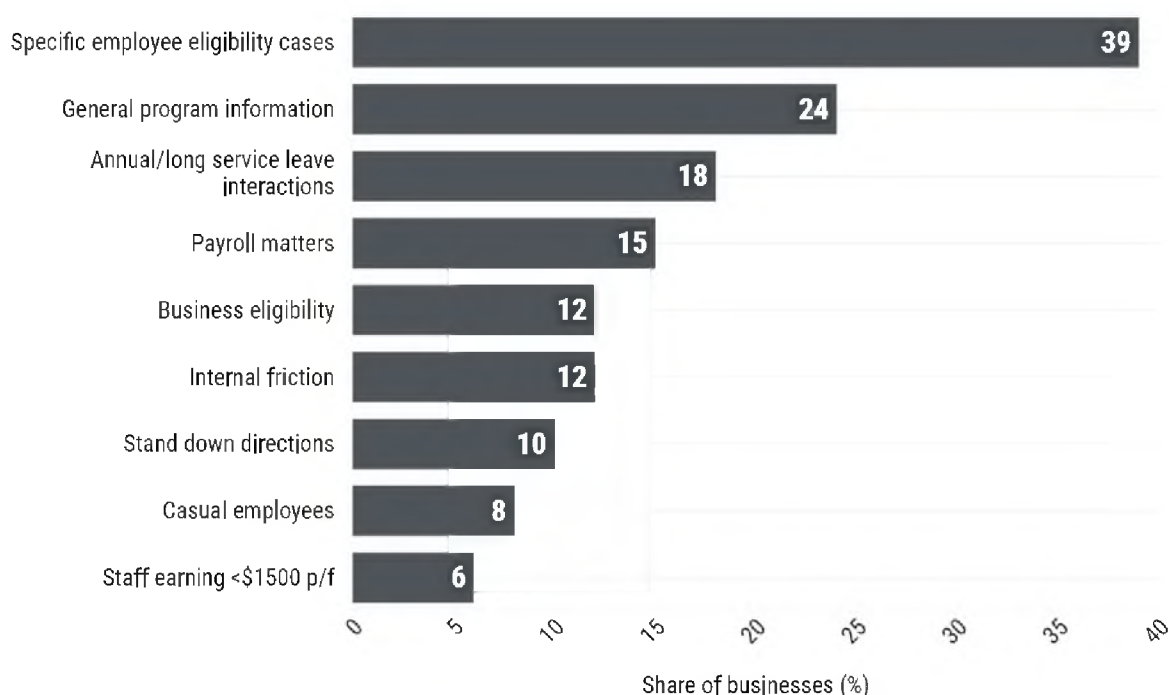
<sup>3</sup> James Bishop and Iris Day (2020), 'How Many Jobs Did JobKeeper Keep?', Reserve Bank of Australia, RDP 2020-07, <https://www.rba.gov.au/publications/rdp/2020/2020-07/>

<sup>4</sup> Official studies include Treasury (2021), *Insights from the First Six Months of JobKeeper*, [https://treasury.gov.au/sites/default/files/2021-10/p2021-211978\\_0.pdf](https://treasury.gov.au/sites/default/files/2021-10/p2021-211978_0.pdf); and James Bishop and Iris Day (2020), 'How Many Jobs Did JobKeeper Keep?', Reserve Bank of Australia, RDP 2020-07, <https://www.rba.gov.au/publications/rdp/2020/2020-07/>. Several academic studies finding similar effects on employment reduction, albeit with different magnitudes, are review in Jeff Borland and Jennifer Hunt (2023), 'JobKeeper: An Initial Assessment', *Australian Economic Review*, 56(1): 109-123.

Nonetheless, the JobKeeper scheme was complex in its design, and implemented on a much shorter timescale than normal for a policy intervention of its complexity and magnitude. Many businesses struggled to understand whether their business or workforce was eligible for the scheme.

These businesses requested assistance from Ai Group to determine their JobKeeper eligibility. The requests they made to us provide an illustrative outline of the complexities involved in administering the scheme, and point towards factors to consider if a similar scheme is needed again.

**Figure 5: Business queries regarding JobKeeper program, April 2020**



Source: Ai Group business liaison data • Data is collated from emails sent to Ai Group "JobKeeper query" inbox during April 2020.

JobKeeper administration queries included the following:

- **Employee eligibility:** with respect to casual employees, newly-hired permanent staff, employees on distinct types of leave (including parental), eligibility dates, length of service, and if recent redundancies could be reversed. There was some confusion about the eligibility of staff on temporary and permanent migration visas.
- **Accessing information,** including where to find government information (from which government department), how to find out who qualifies, how to communicate to employees, where to apply, when to apply, when payments would start, and which time periods were covered.
- **Leave:** how to treat annual leave and long service leave, how to apply JobKeeper Payments to employees on leave, and whether employees could be directed to take leave.
- **Incorporation into payrolls.** Was it a top-up or increase to normal wages? Should salaries be cut to JobKeeper? How to include JobKeeper in payroll on-costs and deductions? How to integrate JobKeeper in superannuation calculations.

- **Clarification on business eligibility:** Businesses that were part of a larger corporate entity sought clarification about whether all of the company group needed to qualify, or whether each company within a group was assessed separately.
- **Stand down directions:** Whether a business needed to confirm its eligibility for JobKeeper before resorting to stand down directions; whether employees that had already been stood down (before JobKeeper commenced) were eligible for JobKeeper; how to manage the intersection of stand downs, leave entitlements and Jobkeeper.
- **Employees not following directions to work** once they qualified and were receiving the JobKeeper Payment. These businesses asked if: failure to attend work was grounds to terminate employment; how to manage unexplained absences; eligibility for JobKeeper during periods of unexplained absences.
- **Internal friction** within businesses was an unexpected outcome. Businesses found:
  - Tensions between JobKeeper recipients who didn't want to attend work in person (or at all) due to health concerns and those who were still coming into workplaces.
  - Tension caused by the JobKeeper's 'flat-rate' structure, requiring a minimum of \$1,500 per fortnight for all workers, including part-time, casual, and lower-paid staff. Some long-term casual workers had salary increases during the JobKeeper payment period despite the actual hours they worked, that were not available to other workers.
  - In other cases, employees with varied pay rates received the same 'flat rate'. For companies with traditional pay grade and seniority practices (as in certain industrial awards), this was a concern and disincentive to utilising JobKeeper.

These queries reflect the challenges that Australian businesses – particularly SMEs without sizeable human resources or payroll functions – faced in accessing and implementing JobKeeper. They do not necessarily reflect requirements to change the design of the scheme itself; but point to the difficulties in administering such a complex wage subsidy scheme across a very large number of SMEs in a very short time.

As JobKeeper's success depended on a rapid uptake by businesses, they emphasise the importance of clarity, consistency and effective communication for similar emergency measure transfer payments that may be required in future.

## 8. Recommendations

The COVID pandemic was borne of unforeseen circumstances, and carried extraordinary consequences for all aspects of the Australian economy and society. It is unlikely that a similar set of public health circumstances will occur again in the near- or medium-term.

However, the experience of the pandemic offers important lessons for how broader situations of societal disruption may be managed. Similar disruptions happen on a smaller and localised scale with relative frequency in Australia – such as natural disasters involving fire, flood and weather – and are likely to become more frequent with climate change.

The challenge of supply chain disruptions, which extended well beyond the acute phase of the pandemic into 2022, shows that similar events occurring abroad can still have economic consequences for Australia, that we need to manage.

The business experience of the pandemic documented above, provides important insights for how Australian governments – at the federal and state levels – should calibrate their responses to other periods of societal disruption.

Ai Group suggest there are five principles – national-consistency, business continuity, openness, financial support and supply chain resilience – that should inform policy approaches to analogous disruptions in future.

### **1. The importance of a nationally consistent approach to communication.**

The history of Australia as a nation has been centred around finding common ground across the country, particularly around business rules and cross-border relationships. It is a rare Australian business that is able to operate without weekly, if not daily, interaction with customers, suppliers or in-house entities in other Australian jurisdictions. An inordinate amount of time and energy was dedicated to uncovering and understanding different rules on movement of people and business operations at a national, regional and sub-regional level. Businesses, employees and the public require clear and consistent communication.

### **2. Consider business continuity in policy**

Businesses play a vital role in social cohesion, the supply of critical services and infrastructure to deal with disruption and ensure economic resilience. The psychosocial and productivity impact of the uncertainty and restrictions continues to influence the workplace today. Responses to major societal disruptions should be designed in a way that minimises continuity impacts.

### **3. The importance of open borders**

As a mid-sized economy, Australia has become a globally-connected nation, confident in its role on the world stage. Closing our borders shook that confidence. It also had a practical impact on the movement of goods and people and business operations. Most damaging was sense of permanence to the decision and the inability for businesses to develop strategies to mitigate the impact. Border closures should be a measure of last resort and maintained for only as long as strictly necessary.

### **4. Provision of financial support**

Depending on the cause of the disruptions, businesses may require short, sharp and targeted financial support for the duration of the event, or to assist in rebuilding post crisis. Governments should be alive to the risk of unintended consequences of rushed responses. Suitably-calibrated financial support programs are an essential component of policy responses to societal disruptions.

### **5. Focus on supply chain resilience**

The experience of Covid demonstrated that many businesses and governments took the security of critical supply chains for granted. Providing support to business for supply chain diversity before, and resilience during, societal disruptions is essential.

As disruptive as the Covid Pandemic was to Australia there many lessons for governments and businesses to ensure that we are prepared for the next major societal disruption. We learnt that Australian businesses are resilient, cooperative and an essential component in societal cohesion. Our workplaces and employment relationships have been forever changed by this event.

## Australian Industry Group contacts for this report

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