

Our advocacy team is based in Canberra

Email: ceo@cosboa.org.au
www.cosboa.org.au

Annual Wage Review
Fair Work Commission

Via email: awr@fwc.gov.au

Dear Annual Wage Review,

Re: Annual Wage Review 2023–24

The Council of Small Business Organisations (COSBOA) represents the interests of small businesses in Australia. There are 2.5 million small businesses that employ over 5 million people, and train over 40 per cent of all apprentices and trainees in Australia.

Small business context

The Australian Small and Family Business Ombudsman recently found in its *Small Business Matters* report that:

- 43 per cent of small businesses were not making a profit
- The majority of small business owners were paying themselves below average annual earnings
- The majority of small business owners (almost three-quarters) were working longer than the median of 39 hours per week

Small businesses are enduring a cost-of-doing-business crisis. Government must tread carefully before adding to the layer cake of compliance and regulatory costs.

Inflation has rightly been described as a drag on jobs, productivity and real wages. For small businesses, the reality is that higher costs undermine viability, dissuades employment and typically results in higher prices for consumers.

Small businesses are facing a perfect storm with rising energy, rent, insurance, borrowing, transport and supply chain costs. This burgeoning pressure was reflected in Xero's Small Business Index Australia Update for Q4 2023, where the Australian Small Business Confidence Index fell 37 points in December to 89 points. This was the largest single month decline since April 2020, when the economy was essentially closed down by the pandemic.

The Australian Securities and Investment Commission (ASIC) recently released its monthly business statistics which showed almost 1,000 Australian businesses went insolvent in February, the worst result since 2015.

Significance of labour costs for small business

For many small businesses particularly those in labour-intensive industries such as hospitality and food service, labour costs can represent 40 per cent or more of their overall operating costs. This does not include the additional compliance costs and red tape associated with an increasingly complex industrial relations regime.

Furthermore, data shows 68 per cent of businesses were concerned about wage costs in Quarter 3 of the 2023-24 financial year.¹ This sentiment has been steadily increasing each quarter.

Last year, the FWC made a significant increase to the minimum wage of 8.6 per cent, and an increase of 5.75 per cent to award rates that flowed into over 100 industries and dozens of classifications. It is important to understand that when award rates are increased, many employers need to increase their entire wage stack to adjust for internal relativities.

Higher wage costs have also been driven by migration policy, specifically the significant increase to the Temporary Skilled Migration Income Threshold (TSMIT) from \$53,900 to \$70,000. In many sectors such as hairdressing and beauty services, this revised TSMIT is higher than the average annual earnings, meaning small employers have effectively been priced out or have paid elevated rates to secure overseas workers.

When legislated wages are increased, small business needs to absorb additional on-costs. These additional costs come from fixed costs such as the superannuation guarantee (which will be increasing from 11 per cent to 11.5 per cent on 1 July 2024), workers compensation insurance averages at 1.34 per cent of total wages, and payroll tax between 4.75 per cent and 6.85 per cent depending on state or territory of operation.

This means that a legislated \$50 increase in wages adds approximately \$59 in direct costs per week to the small business. It is also important to note that this increase gets paid even when the employee is not working as it applies to annual leave, public holidays, and personal leave. Penalty rates on public holidays can amount to 250 per cent, meaning an increase of say 4 per cent increase in the legislated rate is in reality a 10 per cent increase in wages during those trading hours.

Recommendation

It is easy for the government to call for higher award rates when someone else is paying for it. Small business needs sustainable increases. Increases that allow for the right decision-making through hiring, running payroll and conducting staff training.

¹ Small & Medium Enterprise Sentiment Tracker, Fifth Quadrant.

Small businesses seek to create sustainable and rewarding jobs. However, there needs to be a strong consideration of the pressures facing small employers and their ability to remain in business this year and future years.

As noted, last year the FWC made significant increases of 8.6 per cent to the minimum wage and 5.75 per cent to the award rate. This ultimately means further increases endorsed this year will already be enacted on a substantive higher base.

Meanwhile, the RBA continues to warn of Australia's lagging productivity growth as it seeks to fight inflation. Treasury's own Intergenerational Report revised downwards annual productivity growth – down from 1.5 to 1.2 per cent per annum over the next forty years.

As the RBA continues to target inflation between 2 to 3 per cent, COSBOA considers that any legislated wage increases should be within this range as well for this year's determination. Failure to return inflation to the RBA's target range only risks jobs and real wages into the future for small businesses and their employees.

In addition, COSBOA calls for a small business representative to be appointed to the Fair Work Wage Determination Panel to ensure that the complexities and challenges facing Australia's largest private employer are duly considered.

The RBA and Productivity Commission have repeatedly emphasized that wage growth should be linked to productivity for it to be sustainable in the long term. There is a desperate need for government to prioritize boosting productivity through reducing red-tape and relieving compliance burdens on small businesses.

COSBOA welcomes any further consultation on this matter and is willing to work directly with the Fair Work Commission if there are any questions.

Yours sincerely,



Luke Achterstraat
CEO, COSBOA