



Australian Government



Australian  
**Small Business and  
Family Enterprise**  
Ombudsman

10 March 2023

Senator the Hon Jane Hume

Chair of the Senate Select Committee on Cost of Living

PO Box 6100

Parliament House

Canberra ACT 2600

via email: [costofliving.sen@aph.gov.au](mailto:costofliving.sen@aph.gov.au)

Dear Senator Hume,

### **Inquiry into cost of living should encompass costs of starting and operating a small business**

We recommend that the Senate Select Committee on the Cost of Living give due consideration and weight to: The costs of running a small or family business; challenges in the entrepreneurial environment; and the benefits to consumers, communities and national prosperity of policies that promote a dynamic and competitive small business sector.

The rising cost of living – driven by international and domestic inflationary pressures – is having an acute adverse impact on small and family businesses that underpin livelihoods, fuel prosperity and generate opportunities for many Australians. Although public debate and commentary on the cost of living tends to focus on households, small business owners are exposed to the same cost pressures, in addition to direct input costs and a generally higher cost of borrowing.<sup>1</sup>

The disproportionate effects of rising costs of living on small businesses are evident by the modest incomes of their owners. 61% of small business owners had a total personal income of less than \$78,000 in 2021 – \$16,000 less than full-time adult total earnings across all industries in the same year (\$94,000). This earnings figure for small business owners includes income from all sources, with more than one quarter (28%) of small unincorporated business owners working in multiple jobs in 2018-19. Of these, nearly half (47%) worked in 3 or more jobs.<sup>2</sup>

Inversely, small and family businesses play a critical role in alleviating cost-of-living pressures by providing essential goods and services, and in many cases employment, to local communities. Small businesses contribute to over 42% of private sector employment, employ 43% of all apprentices and trainees, and are key to building the economy's productive capacity, structural flexibility and labour force capability.<sup>3</sup> To assist in alleviating cost of living pressures without fuelling additional inflation, the government should pursue measures to encourage entrepreneurship, innovation and increase labour productivity.

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<sup>1</sup> Australian Bureau of Statistics, *Selected living cost indexes Australia – December 2022*, ABS website, 2022, last accessed 24 February 2023.

<sup>2</sup> Australia Bureau of Statistics, *Average Weekly Earnings, Australia, November 2022*, released 23 February 2022, Table 10h. The cited figure for calendar 2021 is the average of May and November figures. ASBFEO calculations, ABS, Census 2021, TableBuilder.

<sup>3</sup> ASBFEO, *Contribution to Australian employment, 2022*, last accessed 27 February 2023.

ASBFEO, *Apprentices and trainees employed by small business, 2022*, last accessed 27 February 2023.



To ensure the inquiry encapsulates the impact of cost-of-living pressures on Australia's small and family businesses, we provide the following recommendations and comments.

- 1. To reduce the impact of regulatory changes on small business, the Australian Government should ensure policy interventions are minimal, effective and (where appropriate) complemented by practical and tailored resources to support small business capacity to manage associated costs.** For example, the *Fair Work Amendment (Paid Family and Domestic Violence Leave) Act 2022* was aligned with the October 2022-23 Budget allocation of \$3.4 million over four years to assist implementation through education materials, technical advice, and support services.

Cumulative and changing regulatory requirements disproportionately impact a small business' capacity to adopt innovations, make productivity enhancements and business process investments.

Privacy and cyber-security are examples of policy areas where significant shifts in technology, social values and small business risk-profiles have led to actual and proposed regulatory changes that warrant targeted design and judicious implementation, especially given the limited time and resources of small and family businesses.

We recommend right-sized regulation and that regulatory agencies consult with small business representative bodies – both to create 'fit-for-purpose' regulations and to ensure awareness among the small business sector of changes. We also support a 'regulation implementation assessment' model focused on consultation and feedback for implementing regulatory changes with minimum effective intervention, particularly where regulatory impacts assessment processes are incomplete or bypassed.

In our submission to Treasury's consultation on Measuring What Matters (Appendix A), we recommended that the Productivity Commission be tasked with developing a framework to effectively measure the policy environment for entrepreneurship and to track its health over time, where the cumulative benefits or burdens of policies, regulations and market designs on the small business ecosystem could be quantified in a 'Small Business Health Index'.

- 2. We urge the committee to consider cost-of-living impacts on barriers to entry to business ownership, self-employment and dignified exit.** While increases in the cost of living are being driven by both structural and cyclical factors, the committee could consider what could be done to prevent temporary cyclical factors turning into lasting structural impediments for new entrepreneurs. Demographic data suggest that the current economic and regulatory environment is not conducive to encouraging the emergence of a strong and abundant new generation of younger entrepreneurs, with only 8% of small business owners under the age of 30 in 2021.

In addition to these apparent barriers to entry, the sector's 47% of small business owners over the age of 50 can face financial challenges when seeking to exit.<sup>4</sup> Small business owners in this age bracket are often dependent on their business' value to plan their retirement, so they can find themselves trapped by unfavourable economic conditions that negatively affect the insolvency and value of their business.

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<sup>4</sup> ASBFEO, *Small business data portal*, Resources and Tools Centre, accessed 31 January 2023.  
ASBFEO, *Quarterly report: Q4 2022 (1 October to 31 December 2022)*, ASBFEO, Australian Government, 2022, accessed 31 January 2023.



Further, given that approximately 60% of Australian businesses are non-employing, the committee could consider the distinctive impacts of cost of living on self-employment.<sup>5</sup>

- 3. Owing to their limited bargaining power, small business input costs and sentiments are inherently more responsive to energy price shocks than their larger counterparts.** Although the weighted monthly wholesale electricity spot price has softened to a maximum of \$100/MWh in January 2023 since its peak in July 2022 at \$400/MWh, there are mixed sentiments regarding the 2023 projections. These trends are similar in the wholesale gas market.<sup>6</sup> The volatility of these key business inputs constraint discourage business investment, and was nominated as the highest pressure faced by almost half of the 1,000 small and medium enterprise respondents in the MYOB 2022 survey.<sup>7</sup> Persistently high energy costs also diminish business profit margins through lower sales revenue, as rising household costs reduce consumer disposable income.
- 4. Rising residential growth is a major barrier to small businesses filling job vacancies.** We acknowledge the Australian Government's efforts to address challenges experienced by many Australians in gaining access to affordable and appropriate housing. Insufficient affordable housing, particularly in regional and rural areas, prevents employment positions from being filled, which in turn restricts small business growth and profitability and the availability of employment and wages for jobseekers. Similarly, many small businesses are coming under strain from rising industrial rents, with average prime rent growing 2.0% over the December 2022 quarter and is projected to continue the upwards trend due to industrial pre-commitments being below the 10-year trend.<sup>8</sup>
- 5. The rising cost of living is both a result of, and contributes to, rises in insurance premiums for small and family businesses.** Insurance premiums contribute to cost of living as a necessary expense that maintains standards of living in the event of an accident or emergency. As the cost of goods and services increase, the expected amount of future insurance payouts also increases. The ASBFEO's Small Business and Natural Disaster Preparedness and Resilience Inquiry 2022 revealed that owing to difficulties in securing appropriate insurance at an affordable price, many small businesses are operating uninsured or underinsured.<sup>9</sup> The current inflationary environment is likely to further harden the insurance market, reducing small business insurance accessibility. We recommend the government facilitate the building of business operational resilience and promote risk reduction initiatives. While this may not be the "silver bullet" to solving all insurance issues, they are an important part of the solution.
- 6. Rising costs of living can result in an income-expenditure gap, which is often filled by credit sourced from both the bank and non-bank lending sectors.** Since April 2022, ten consecutive raises have increased the Reserve Bank's target cash rate from 0.10% to 3.60% as of 7 March 2023, passed onto small businesses through higher lending rates.<sup>10</sup> This increases the risk for struggling small businesses to be exposed to predatory lending, which is counter-productive

<sup>5</sup> ASBFEO calculations, ABS Counts of Australian Businesses, August 2022.

<sup>6</sup> Australian Energy Market Operator (AER), *Wholesale markets quarterly - Q4 2022, 2023*, accessed 24 February 2023.

<sup>7</sup> MYOB, MYOB business monitor report, 2022, accessed 1 March 2023.

<sup>8</sup> JLL Australia, Australian industrial market overview 4Q22, Logistics and industrial market overview, JLL Australia, 2023, accessed 28 February 2023.

<sup>9</sup> ASBFEO, *Small business and natural disaster preparedness and resilience inquiry*, 2022, accessed 24 February 2023.

<sup>10</sup> Reserve Bank of Australia (RBA), *Cash rate target*, RBA website, 2023, accessed 24 February 2023.



to business continuity, mental health and social cohesion. Where credit is secured, about half of small business loans are secured by residential property, which for a small business owner often means the family home. This reflects the intricate links between corporate and personal insolvency, fundamentally underpinned by the relationship between business costs and cost of living.<sup>11</sup> The ASBFEO recommended to the Parliamentary Joint Committee on Corporations and Financial Service that establishment of a singular legislative framework for personal and corporate insolvency would better recognise their close connections.

**7. Poor payment times by large businesses disproportionately impact small business suppliers.**

Cash flow is critical to businesses managing their costs of operating and living. Poor payment times compound existing cash flow challenges facing small business suppliers. Our analysis of the Payment Times Reporting Regulator's latest data on the payment performance of more than 7,000 large business reveals that there has been virtually no improvement over the past six months. The ASBFEO participated in the statutory review of the Payment Times Reporting Act and will make our submission and recommendations available to the committee as soon as it is published.

Yours sincerely

**The Hon. Bruce Billson**  
Australian Small Business and Family Enterprise Ombudsman

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<sup>11</sup> Productivity Commission (PC), Small business access to finance: the evolving lending market, 2021, last accessed 24 February 2023.



## Appendix A

31 January 2023

Treasury

Langton Cres

Parkes ACT 2600

Dear Sir/Madam,

### Measuring what matters

Small and family businesses play a crucial role in the Australian economy, through their contributions to economic growth, employment, and essential positions in supply chains – especially in rural and regional Australia. Small businesses account for 33% of Australia’s total GDP and 42% of private sector employment. Despite their economic contributions, the new generation of small business owners are facing significant market entry challenges, with only 8% of small business owners under the age of 30 in 2021. This indicates barriers within the entrepreneurial environment, where there is significant value to be uncovered in the context of measuring wellbeing.

The distinctive characteristics and perspectives of small and family businesses must be considered when implementing a framework to measure what matters. The comprehensive and effective measurement of both the entrepreneurial environment and small business owner wellbeing is an essential component of the national wellbeing landscape.

**As part of this consultation, we recommend the Australian Government consider tasking the Productivity Commission with developing a framework to effectively measure the policy environment for entrepreneurship and to track its health over time.** The cumulative benefits or burdens of policies, regulations and market designs on the small business ecosystem could be quantified in a ‘Small Business Health Index’, which could consist of key indicators such as:

- The cost of establishing a business
- The ease or difficulty of maintaining self-employment, becoming an employer or employing additional workers
- Estimated total hours of compliance to recurrent tax and regulatory obligations
- The ease or difficulty of gaining access to finance
- The ease or difficulty of gaining access to export markets and international investment
- The work satisfaction and mental health of owners of small and family businesses.

As much of the policy environment for small and family businesses is shaped by state and local governments, the ‘Small Business Health Index’ would need to take all levels of government into account and to highlight the differential impact of alternative approaches where relevant.

We submit that the Productivity Commission would be well-placed to undertake this task, given its extensive experience of conducting ongoing regulatory reviews across jurisdictions and identifying best practices.



A comprehensive 'Small Business Health Index' would require effective measurement of the 'non-core' business activities undertaken by small and family business owners. Small and family businesses lack the resources of their larger counterparts, often with less formalised processes, governance structures and business systems. These unique ecosystem differences result in a greater dependence on the business owner that is particularly apparent in non-core business activities, such as regulatory compliance and administrative tasks.

Existing gaps in small business data indicate a failure to capture the full extent of the relationship between work demands of small business owners and their business. The core business activities that small business owners engage in to produce revenue generating goods or services are effectively measured using business performance indicators. These indicators include turnover, profits, and inventory related statistics. However, these performance indicators do not adequately capture all the activities that small and family business owners must undertake.

There are a variety of non-core business activities that underpin revenue generation and account for a significant portion of the time demands of small business owners. We suggest, the investment in these activities can be better quantified by owner/operator centric variables such as hours spent on compliance, ratio of work to personal time and the frequency of major goods or services change. Adequate measurement of these variables will improve the ability to measure the wellbeing of small and family business owners and the health of the entrepreneurial environment.

The relevance of measuring non-core business activities conducted by small business owners to understand their wellbeing is indicated by Treasury's Small Business and Mental Health report 2022. The report measured small business owners' stress levels associated with different non-core business activities, which reflects a facet of their general wellbeing. By filling this data gap, the work demands of small business owners could be better measured through the more holistic view of the various business activities engaged in. This will likely reveal the complex linkages between wellbeing and commercial variables in the entrepreneurial environment. The need to target understanding of small business owners' wellbeing is demonstrated by the State Insurance Regulatory Authority (SIRA) report in 2021, which highlighted how the varied governance structure of micro-sole businesses (0-4 employees) relative to large organisations affects their owners' wellbeing differently in the context of mental health.

For example, in organisational psychology self-efficacy is generally positively associated with measures of success and job satisfaction. However, the SIRA report found that for micro-sole business owners, entrepreneurial self-efficacy can overdrive their "can-do" attitude, leading to over-exertion, lowered work satisfaction and negatively affected mental health. This research demonstrates the need for government policies and data measurements to recognise the uniqueness of the small business ecosystem. Better measurement of the non-core business activities of small business owners is also likely to help identify many of the operational differences to large businesses, and the impact on their wellbeing.

Further, the measurement of non-core business activities is particularly important to form the statistical foundation to better understand self-employment and build self-employment datasets, an imperative step that provides clarity on the critical role of small business owners in the labour force. This clarity could significantly facilitate the creation of a 'Small Business Health Index', aiding the effective measurement of the entrepreneurial environment.



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