



Australian Hotels Association

Submission in relation to:
Annual Wage Review 2011-12

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16 March 2012

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Recommendations

As a member of the Australian Chamber Commerce Industry (ACCI), the Australian Hotels Association (AHA) supports ACCI's written submission to the 2012 Annual Wage Review.

Subject to the Panel's determination of ACCI's application the AHA can provide further details with regard to either an exemption or supplementary hearing process.

The AHA submits that with respect to the *Hospitality Industry (General) Award 2010* that the Panel give special consideration to:

- 1. The additional cost to businesses from the impact of the introduction of the carbon price (for which hospitality businesses are not eligible for compensation) plus additional increases in electricity and product costs in excess those directly associated with the introduction of a carbon price.**
- 2. The current poor trading prospects for hotels as a consequence of the high value of the Australian dollar, reduced domestic tourism and reduced spending by consumers.**
- 3. The majority of the award-reliant employees are employed by hospitality businesses in the slow second speed economy.**
- 4. The low productivity of the hospitality sector.**

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About the AHA

The Australian Hotels Association (AHA) is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. Its membership of more than 5,000 licensed hotel businesses includes pub-style hotels plus three, four and five-star accommodation hotels located in each state and territory. The AHA's accommodation hotel members are serviced by Tourism Accommodation Australia, a division of the AHA. The AHA has branches located in every Australian capital city and a Canberra-based national office.

This AHA submission has been prepared to highlight the specific circumstances facing hotels relevant to the consideration of the national minimum wage. Such considerations include the cost structures within the industry, relatively low levels of profitability, and the capacity of the industry to remain a significant employer of Australian labour.

About the hotel industry

The hotel industry is a significant employer, with more than 278,000 persons employed between the pub sector (188,000)¹ and the accommodation sector (90,000)², and an annual wages and salaries contribution of \$5.41 billion. In addition there are an estimated 20,000 employees in the casino sector³. Although some hotels are large-scale operations with hundreds of employees which form part of national or international chains, the majority of AHA members are small, locally-owned businesses serving their surrounding communities. In 2005-06 only 145 of 65,197 businesses in the ABS Accommodation, Cafes & Restaurants sector employed more than 100 people.⁴

The AHA's members operate highly labour-intensive businesses and as such are significantly impacted by wage increases. The Australian Fair Pay Commission identified that wages amount to 24 per cent of total expenses in the hospitality industry compared to the average across all industries of 15.8 per cent.⁵ The average AHA member therefore has relative wage costs which are nearly 52 per cent higher than the average Australian business.

The nature of the hotel industry requires employees to be engaged outside of normal business hours. In most cases, the majority of hours worked in the business are at night and on weekends. This results in significant additional costs through the penalty structures in the award system.

The hospitality industry is highly competitive, and competition on price results in "relatively low profit margins... of 5.5 per cent, compared with 10.8 per cent across all industries in the economy."⁶

¹ PricewaterhouseCoopers (2009) *Australian hotels: More than just a drink and a flutter*

² Australian Fair Pay Commission (August 2008), *Accommodation, Cafes and Restaurants Industry Profile, Research Report No. 1/09*

³ Australasian Casino Association, *Submission to the Parliamentary Joint Select Committee on Gambling Reform*, 31 January 2011

⁴ Australian Bureau of Statistics (2007), *Australian Industry 2005-06*

⁵ Australian Fair Pay Commission (August 2008), *Accommodation, Cafes and Restaurants Industry Profile, Research Report No. 1/09*, p31

⁶ *Ibid*, p40

Two speed economy

Much has been made of the concept of a two-speed economy in which some sectors and some businesses are faring much better than others. This is certainly the case in the hospitality industry, which could actually be described as a three speed economy.

1. Those hospitality businesses that are linked into the mining sector have enjoyed the best profitability and these businesses usually pay wages in excess of minimum wages to attract staff. The AHA estimates that 5-10 per cent of hospitality employees are employed in these enterprises.
2. The accommodation sector in Perth, Melbourne, Adelaide and Sydney are likely to enjoy reasonable occupancies for 2012/13 but yield will continue to be lower than in the better years of trade. Many of these businesses employ under their own enterprise agreements. The AHA estimates that 20-25 per cent of hospitality employees are employed in these enterprises.
3. The accommodation sector in Northern Territory, Queensland, Tasmania, ACT, regional Western Australia, New South Wales and Victoria continue to suffer from low occupancies and domestic tourism continues to decline both in numbers and spend.

In addition to revenue drop off from consumers, government regulatory interventions in smoking, alcohol and gaming are also likely to impact non-accommodation hospitality businesses.

The AHA estimates that this third group represents the bulk (around 70 per cent) of the industry workforce and is generally award-reliant. Accordingly, any consideration of the economic and trading environment should give weight to the trading conditions of this third economy group.

Other factors affecting the hotel industry

Introduction of a price on carbon

With respect to electricity prices the federal Treasury modelling is that carbon price will lead to a 7.9% increase in electricity costs. In addition to this electricity costs are forecast by leading energy consulting firm Trans Tasman Energy Group to rise a further 10 to 15 per cent in 2012. The AHA also notes media reports suggesting electricity prices in NSW could increase by as much as 64 per cent over a three year period.⁷

The AHA has noted that Treasury modelling suggests carbon price-related increases in costs for food and beverage is expected to be around 1 per cent. This would appear to be inconsistent with projected figures mooted by some AHA suppliers of at least 5 per cent increases. ACCI research indicates that the food and grocery manufacturing industry have calculated carbon price to cost 4.4% of operating profits before tax in 2012-13. Certain sub-sectors are expected to be more significantly impacted, such as dairy product manufacturing (11.5%) meat and meat product manufacturing (11.6%) paper stationery and other converted paper product manufacturing (15.6%). Many of these sub-sectors are major suppliers to the hotel industry which indicates a high exposure of hotels to increased operating costs as a result of the introduction of a carbon price.

⁷ Sydney Morning Herald (18 March 2010) *NSW electricity prices to soar*, via <http://www.smh.com.au/nsw/nsw-electricity-bills-to-soar-20100318-gqjw.html>

The AHA points out that information from suppliers has been difficult to obtain following warnings issued by the Australian Competition and Consumer Commission regarding penalties for providing misleading information on carbon price cost impacts. As a result of these warnings suppliers have been reluctant to provide details around anticipated price changes.

Despite the lack of forthcoming data, the AHA believes the impact of the carbon pricing scheme on the hotel industry will be more severe than suggested by Treasury's modelling.

Current trading conditions

Many of the AHA's members face a lengthy period of uncertainty in their business and trading environments as a result of regulatory interventions from governments at state/territory and Federal levels. Issues such as gambling pre-commitment schemes, liquor licensing reviews, smoking bans and the harmonisation of work health and safety laws are all current or emerging issues requiring compliance and attention from hoteliers.

The unseasonably cool and wet weather conditions over the 2011/12 summer have resulted in poor trading conditions for hotels in many parts of Australia, including many which are still attempting to recover from the devastating impact of natural disasters from last summer.

In terms of tourism, the strong Australian dollar is having a significant effect, with the latest Tourism Forecasting Committee (TFC) figures showing Australia's tourist deficit continued to grow in 2011. With arrivals stagnating and ABS data for the first 11 months indicating 1.7 million more resident departures than foreign arrivals, the TFC expects international arrivals to grow by only 0.4 per cent for 2011, with an improved forecast of 2.7 per cent growth for 2012. Domestic travel, meanwhile, is expected to end 2011 in the red, with nights down 0.3 per cent. A soft recovery is anticipated in the year ahead, with forecast growth of just 0.5 per cent.⁸

Overall, trading hotel revenue is down with high-end food, entertainment and electronic gambling spend particularly soft. Generally, hotel visitation is characterised by shorter stay visitation and lower price-point spend as patrons still visit the pub but spend less. Hotel valuations are also in decline and freehold hotel owners have seen more onerous bank loan conditions imposed. Leasehold hoteliers have not received any concessions from their landlords

Low productivity growth

One of the key drivers of hotel industry concern with significant wage increases is the absence of any connection between the increases and the output of the hospitality workforce. The Productivity Commission found that labour productivity in the tourism industry increased by just 1.1% per year between 1997/98 and 2008/09, compared to 1.8% growth across all industries.⁹ In addition, the ABS Accommodation, Cafes & Restaurants statistical category recorded the lowest labour productivity ratios of 12 major industries in each of 1993/94, 1998/99 and 2007/08.¹⁰

Sub-sectoral wage comparisons

With respect to earnings under the *Hospitality Industry (General) Award 2010*, Service Skills Australia found that the median weekly earnings of full-time employees were 20 per cent higher in the *Pubs, Taverns & Bars* sub-sector (\$900 per week) in comparison to the *Cafes, Restaurants, Takeaway Food*

⁸ Tourism Transport Forum (Feb 2012) *Tourism Industry Update*, p2

⁹ Tourism Research Australia (2010) *Tourism Productivity in Australia*, p7

¹⁰ Fair Work Australia (2011) Research Report 1/2011: *An overview of productivity, business competitiveness and viability*, p31

sub-sector (\$750) where other hospitality awards apply, and 12.5 per cent higher than the overall median weekly earnings for the sector as a whole (\$800).¹¹

Industry survey

In January 2012, the AHA undertook a survey of its members including questions aimed at determining the impact of the 2011 wage increase on their businesses and to seek views from members in relation to a the 2012 Annual Wage Review.

The survey was completed by 643 hotels, including 515 pub-style hotels and 128 accommodation hotels.

A copy of the relevant survey data is attached and the following extracts highlight the critical findings:

- 86% of hotels and 62% of accommodation venues pay employees under the terms of the Hospitality Industry (General) Award 2010.
- 28% of hotels and 41% of accommodation venues pay employees above award rates.
- In relation to the 3.4% wage increase of 2011
 - 77% of hotels and 68% of accommodation venues tried to absorb the increased cost without raising prices.
 - 63% of hotels and 52% of accommodation venues reduced trading hours as a result of the wage increase.
 - 87% of hotels and 80% of accommodation venues reduced overall employee working hours as a result of the increase.
- 31% of hotels and 24% of accommodation venues do not believe their businesses can sustain any wage increase in 2012.
- Only 33% of hotels and 51% of accommodation venues believe their 2012 turnover will increase from 2011.

¹¹ Service Skills Australia (2011) *The State of Chefs and Cooks in 2011*, p13

Annexure

Australian Hotels Association – Survey of members

Extracts from members survey January 2012

Number of responses:	643
Non accommodation (pub) members:	515
Accommodation members:	128

Survey Question	Hotels	Accommodation
Are your employees paid: (a) Under HIGA (b) Under agreement	86% 12%	62% 38%
Your employees generally paid: (a) At award rates (b) Above award rates	72% 28%	59% 41%
In July 2011 FWA granted a 3.4% wage increase. Did your business: (a) Generally increase prices to cover wage increase (b) Try to absorb the wage increase	23% 77%	32% 68%
Did you increase or decrease your trading hours in 2011 to try to cover the 3.4% wage increase: (a) Increase (b) Decrease	37% 63%	48% 52%
Did you increase or decrease your total employee working hours as a result of the 3.4% increase: (a) Increase (b) Decrease	13% 87%	20% 80%
Do you expect your income (turnover) increased from 2011 to 2012?	33%	51%