



Australian Hotels Association

Submission in relation to:
Annual Wage Review 2013-14

Fair Work Commission
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Recommendation

The AHA submits that with respect to the *Hospitality Industry (General) Award 2010*, and considering the prevailing business environment in the hotel sector, that the Panel should give special consideration to there being no increase to the national minimum wage awarded this year. However, if the panel considers that an increase is justified, then AHA submits such increase be no more than \$8.50 (consistent with the submission of the Australian Chamber of Commerce and Industry (ACCI)).

In the Year to Date Financial Year 2013-14 the hotel sector:

1. Has significantly been impacted by the introduction of the carbon tax with profitability of businesses being impacted up to 11.8% by the impact of carbon tax alone. Hoteliers did not receive any compensation for the introduction of the carbon tax.
2. Has significantly been impacted by additional utility costs which have been in excess of the increase attributed to carbon tax. The timing of the carbon tax coincided with the need for utility providers to increase utility costs for non carbon tax reasons.
3. Has experienced poor trading conditions as a consequence of the reduced spend by domestic consumers, the reduced domestic tourism generally and the impact high Australian dollar
4. The economies of Victoria, South Australia and Tasmania are in recession and this is reflected in the trading conditions of hotels in these states. The hotel economies of other jurisdictions have been flat.
5. The impact of the 2012 Wage increase, being well in excess of CPI, has caused a reduction in overall employee working hours.
6. In excess of 75% of hotels and accommodation venues have forecasted that their revenue for 2013-14 will not increase from 2012-13 turnover. The tight trading conditions in 2012-13 meant that the majority of hotel businesses had to absorb the wage increases without raising prices, notwithstanding input costs increased well above CPI. Our members advise their businesses cannot continue to absorb above CPI wage increases indefinitely. Such an approach simply undermines the viability of existing employment levels and continued business sustainability
7. The combination of current wage pressures, the recent and impending employer superannuation contribution increases' prior to the words, carbon tax, reduced consumer spend has meant that the profitability of hotel businesses have deteriorated and in many cases has seen bank valuations reviewed triggering action by bankers to exercise default provisions on business loans.

Accordingly the 2014 Wage Review needs to consider the capability of businesses to sustain their employment levels and total hours available in the current economic climate.

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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 operates primarily 24 hours a day, 7 days a week and 52 weeks a year and is a significant employer nationally, 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 is an estimated 20,000 employees in the casino sector.³

The AHA's members operate highly labour intensive businesses and as such are significantly impacted by wage increases. The ABS identified that labour costs amount to between 24.9 per cent and 26.9 per cent of total expenses in the hospitality industry compared to the average across all industries of between 17.0 per cent and 17.8 per cent.⁴ The average AHA member therefore has relative wage costs which are around 65 per cent higher than the average Australian business.

Although some hotels are large-scale operations with hundreds of employees that form part of national or international chains, the majority of AHA members are small, locally owned businesses serving their surrounding communities. In 2005-2006 only 145 of 65,197 businesses in the ABS Accommodation, Cafes and Restaurants sector employed more than 100 people.⁵

Around one third of the AHA's members are located in regional areas, where hotels play central roles as a social hub, a provider of food, entertainment and banking services and a community meeting place, but also as one of the larger employers. Around ten per cent of the AHA's members derive the majority of their income from providing overnight accommodation. Although there are a small number of hoteliers who own the freehold on their land and premises, the majority of hoteliers lease their premises. 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 Fair Pay Commission, above n 2, 31.

⁵ Australian Bureau of Statistics (2012), *Australian Industry 2010-11*.

⁶ Australian Fair Pay Commission, above n 2, 31.

Industry survey

In February/March 2014, the AHA undertook a survey of its Members. The main focus of the survey was to determine the impact of past Award wage increases and see the likely impact of a wage increase this year. The results of the survey were as follows:

- The majority of members (73.1%) are small or medium businesses employing less than 50 employees
- 75.49% of members indicated that they tried to absorb the 2.6% wage increase in 2013 however 54% also reduced the total number of workable hours available
- Less than half of respondents surveyed said that their turnover had increased year on year for the past few years with an overwhelming minority outlining that they expect an increase for the 2013-2014 year
- 50% of respondents indicated that if Award wages increase in 2014 they will pass the increase onto customers
- 68.76% of respondents indicated that they will reduce working hours available, in particular having an impact on casual employees, if an increase is awarded to minimum wages in 2014
- An overwhelming majority outlined that they have had significant difficulties dealing with the overall business cost increases, in particular utilities, over the last year.

Wage Increase

Since July 2010 wages have grown at a faster rate than CPI. This can be seen in the table below. A total percentage increase of 13.1% has been awarded to Award Wages since 2010 whilst the CPI increase has been 10.5%, some 2.6% lower.

| Year | Minimum Wage Increase % | CPI % | Difference |
|------|-------------------------|-------|------------|
| 2010 | 4.2* | 2.9 | 1.3 |
| 2011 | 3.4 | 3.3 | -0.1 |
| 2012 | 2.9 | 1.6 | 1.3 |
| 2013 | 2.6 | 2.7 | 0.1 |

* Note: this is the average percentage increase across all levels as these increases were all flat dollar/cent amounts.

Whilst it is acknowledged that the cost of living has increased and the relative living standards and needs of the low paid need to be taken into account,⁷ at the same time so does the needs of businesses and their ability to remain viable.⁸ Like households, businesses too are faced with increased costs such as electricity, insurance, food and taxes both State and Federal for example, which as will be outlined in this submission have greatly increased over the past years. Labour costs are the variable out of all the increased costs that Businesses are able to reduce, this being done by either reducing the overall number of employees or the number of hours available to current employees. Members have indicated that a wage increase of any size this year will have such an impact.

⁷ Fair Work Act 2009 (Cth) s 284(1)(c).

⁸ Fair Work Act 2009 (Cth) s 284(1)(a).

Whilst the majority of employees in the hospitality sector are Award reliant, the vast majority are employed on a casual basis. Past surveys of members have indicated that 75% of total employees are casual employees. This means that the vast majority of employees do not rely on the minimum wages contained in the *Hospitality Industry (General) Award 2010* ('HIGA') due to the additional casual loading that they receive.⁹

When this is taken into account earnings of such an employee increases to 63% of the average adult ordinary time earnings across Australia.¹⁰ On top of this the majority of full time and part time employees do not earn the minimum wages contained in the HIGA, as they too have their earnings boosted through penalty rates and overtime earnings. This potentially sees the low paid earning above the definition of a 'low paid' employee as outlined by the FWC.¹¹

Economic Conditions

During 2012 the Victorian, South Australian and Tasmanian economies were in a 'technical recession'.¹² This too was felt by Western Australia towards the end of 2013.¹³ This situation has now changed, however growth across the country has been minimal at best.¹⁴ This is evidenced in particular by 0% growth in the last reported quarter of December 2013 in South Australia, and only 0.1% growth in Queensland during the same period.¹⁵ The West Australian economy has slowed significantly which would appear to be in line with the changes occurring in the mining sector as it moves from the construction and investment phase to the production stage.¹⁶ The Northern Territory is the only exception to these subdued and minimal growth figures. It is anticipated that the below trend growth is going to continue for at least the remainder of 2014 and into 2015.¹⁷

Whilst on paper it may appear that the economy is not receding, this is certainly not something that is being felt by hospitality businesses across the State.¹⁸ All branches of the AHA have been faced with an ever increasing number of calls for assistance with business restructures which result in either employee redundancies or a cut to employee hours.

The unemployment rate has been rising steadily over the last few quarters and is now at its highest rate since 2002.¹⁹ It is anticipated that the unemployment rate will continue to rise during 2014 as labour conditions across the country have remained weak with businesses cautious to hire new

⁹ HIGA clause 13.1.

¹⁰ Australian Bureau of Statistics, *6302.0 Average Weekly Earnings, Australia, Nov 2013 – Table 1* (February 2014). Important note: this calculation was based on the casual loading of 25% as contained in clause 13.1, when factoring in weekend and public holiday penalty rates this percentage would be much higher.

¹¹ [2013] FWCFB 4000 (3 June 2013) [34].

¹² Australian Bureau of Statistics, *5206.0 Australian National Accounts: National Income, Expenditure and Product – Table 21* (December 2013).

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Reserve Bank of Australia, *Statement of Monetary Policy* (February 2014) 61.

¹⁷ Ibid, 3.

¹⁸ Results from AHA Wage Survey 2014.

¹⁹ Australian Bureau of Statistics, *6202.0 Labour Force, Australia, Feb 2014 – Table 1* (February 2014).

employees whilst economic conditions remain subdued.²⁰ It is anticipated that employment growth will be moderate at best over 2014.²¹

Further to the overall unemployment levels, the rate of unemployment amongst youths, those aged 16-24, is extremely high at 12.5%.²² Hospitality businesses would be well placed to assist with the promotion of social inclusion of this group through employment in the industry, if business conditions were more favourable.

Unfortunately due to the high costs of running a business, in particular the high wage costs, hospitality businesses have been reducing employee numbers and available hours meaning that young people are unable to gain access to the industry when they may be able to if circumstances were more suitable.

The full impact that the closure of manufacturing businesses such as Holden, Ford and others will have on not only the economy as a whole, but the economies of the local communities surrounding the area is yet to be felt. Providing employment opportunities over the coming years will be crucial to these workers. Increasing Award wage rates will have a negative impact on the ability for businesses, in particular hospitality businesses to do this.

Business Costs

Over the past two years electricity costs have increased substantially across the country. In the past two years alone electricity prices in Queensland have increased by 34.8%, Victoria have increased by 30.6% and New South Wales has experienced increases of 23.5%.²³ When looking at the utilities basket overall Victoria again has been hard hit with an increase of 27.1% and the Northern Territory has seen increases of almost 30%.²⁴

Over this same period CPI has risen by just 5%.²⁵ Other States, whilst not experiencing increases to the extent that was outlined in the AHA Submission of 2013, are continuing to feel the effects of the excessive increases of the past few years, for example South Australia in particular which saw a 53% increase in utilities and electricity increase of 39.8% from 2010 to 2012. This is evident from the results of the Member survey conducted by the AHA.

Other business costs which are much harder to obtain statistics for are those such as ongoing maintenance costs. Members have advised that these costs are rising at a rate far greater than CPI, with ongoing fees for gaming compliance monitoring increasing 12% each year for the last 3 years alone.²⁶

²⁰ Reserve Bank of Australia, above n 16, 62; National Australia Bank, *Monthly Business Survey: February 2014* (11 March 2014) 1.

²¹ Reserve Bank of Australia, above n 16, 3.

²² Australian Bureau of Statistics, *6202.0 Labour Force, Australia, Feb 2014 – Table 13* (February 2014).

²³ Australian Bureau of Statistics, *6401.0 Consumer Price Index, Australia – Table 11. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City* (December 2013).

²⁴ Ibid.

²⁵ Ibid.

²⁶ Please note this has been advised by South Australian AHA Members in various forums, meetings and the like held across the year.

Other Costs

The Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 (Cth) ('Repeal Bill') did not pass through Federal Parliament in March 2014. This means that should another Bill not be put before Parliament in time for the scheduled superannuation increase to occur from 1 July 2014, the superannuation increase to 9.5% will occur. The FWC should once again take this 0.25% increase into consideration in the Annual Wage Review Decision, as was the case in 2013,²⁷ if the Repeal Bill has not passed in time to stall the increase.

Our position in relation to this is as contained in our 2013 Annual Wage Review submission. This being that whilst it could be argued that an additional 0.25% is only a minimal increase, every increase in an expense impacts on the viability of a business and their ability to hire or retain employees. When looking at the additional cost for one employee the additional amount of superannuation payment may appear negligible, however when you multiply this across the entire workforce the figure becomes far greater.

Hotel economy

The economic conditions currently prevailing over Australia has seen businesses operate through some of the toughest conditions in many years. The overall operating costs of hospitality businesses have increased significantly over the past few years and the increase in Award wages has not helped the situation. In addition to this trading has been flat right across the country. This has had an impact on employers ability to either retain employees or provide employees with the hours that they would like, thus having an impact on social inclusion and the relative living standards of the low paid.

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 the carbon tax, the strong Australian dollar, gambling pre-commitment schemes, liquor licensing reviews and no-smoking laws are all issues that continue to have a substantial impact on the businesses of our Members. Whilst statistics may show that consumer sentiment and retail spending have been increasing over the last few months, this is certainly not something that has been felt by our Members.²⁸

The pub sector continues to be impacted by the decline in on premise consumption, whilst at the same time being faced with increased competition from the 'small bar' craze that has swept across the country and strong competition from off premise liquor retailers. The increase in online gambling has seen Hoteliers experience a decline in the traditional gambling market including TAB and Keno.

Whilst increased competition in the sector is welcomed to an extent, it does mean that well established businesses are not as well placed as in the past to weather increased operational expenses such as wages. In addition to this Hoteliers who do not own the freehold of their premises are being faced by increased lease payments from their landlords.

²⁷ [2013] FWCFB 4000 (3 June 2013), [47].

²⁸ Reserve Bank of Australia, above n 16, 4.

From a tourism perspective visitor numbers to Australia continue to increase. From an international visitor perspective there was a 7.2% increase in international visitor numbers over 2013,²⁹ a trend that has also been experienced across individual states.³⁰ However, this increase in visitor numbers is not necessarily having a positive effect on the accommodation sector. Whilst demand has seen an increase in revenue per room in some States and Territories, demand for rooms has been flat with overall occupancy numbers down or remaining steady.³¹

Whilst the amount of revenue per room increased across 2013 for some states and territories, this increase has been only minimal at best.³² This ultimately has an impact on a business's bottom line and their ability to retain or employ new staff. Accommodation venues do not see this improving during 2014 and as indicated through the responses to the AHA Wage Survey, a wage increase in 2014 will only impact on this further.

Accommodation venues have been hit hard by the increase in the number of Australians heading overseas for their holidays, rather than travelling domestically. This number of international holidays taken grew by 9.4% over 2013.³³ This was in comparison with an increase of only 6.2% in the domestic market. As long as the strength of the Australian Dollar remains, it is anticipated that this trend will continue.

Conclusion

The AHA submits that with respect to the *Hospitality Industry (General) Award 2010*, and considering the prevailing business environment in the hotel sector, that the Panel should give special consideration to there being no increase to the national minimum wage awarded this year. However, if the panel considers that an increase is justified, then AHA submits such increase be no more than \$8.50 (consistent with the submission of the Australian Chamber of Commerce and Industry (ACCI)).

²⁹ Tourism Australia, *Visitor Arrivals Data* (January 2014)

<<http://www.tourism.australia.com/statistics/arrivals.aspx>>.

³⁰ South Australian Tourism Commission, *International Visitor Survey (IVS) Results Year Ending September 2013* (2013); South Australian Tourism Commission, *National Visitor Survey (NVS) Results Year Ending December 2013* (2013).

³¹ South Australian Tourism Commission, *Accommodation Annual Results* (2013).

³² Ibid.

³³ Australian Bureau of Statistics, *6401.0 Consumer Price Index, Australia – Table 11. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City* (December 2013).