



**Accommodation
Association
of Australia**

Annual Wage Review

Submission – 2012

**Submission of the Accommodation
Association of Australia**

EXECUTIVE SUMMARY

- The Accommodation Association of Australia (the Accommodation Association) recommends that FWA passes on an increase of no more than 2.25 per cent.
- The basis for this position is consistent with the Minimum Wages Objective in s. 284 of the *Fair Work Act 2009* (Cth) ("**FW Act**") and in particular, s.284(1)(a) which requires FWA to take into account "*the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth*" and s.284(1)(b) "*promoting social inclusion through increased workforce participation*".
- We note that in addition to s.284, FWA is obliged to consider the Modern Award objective in s.134 of the FW Act. The Accommodation Association refers to its Application to Vary the Modern Hospitality Industry Award dated 8 March, 2012 in which it indicated that increased employment costs and the regulatory burden experienced by its members due to the operation of the Award have decreased productivity which is a relevant consideration of one of the modern awards objectives (s 134(1)(f) of the FW Act).
- For reasons set out in this submission, any increase above 2.25 per cent to the minimum Modern Award wages and the national minimum wage would jeopardise the performance of the economy, as it would have a significant impact on the accommodation sector and its ability to employ and keep employed workers directly relates to workforce participation levels.
- The Accommodation Association's sectoral interests reside in the broad tourism sector. This submission focuses on those aspects of the wage review of most direct impact upon tourism, with a key focus on accommodation.
- The employer superannuation guarantee will increase from 9 per cent to 12 per cent from 2013-14 to 2019-20. Since superannuation is a part of an employee's total remuneration package, an increase in superannuation must be factored into an increase in wages.
- The effects and uncertainty surrounding the proposed carbon tax would be felt in particular, by small and medium-sized businesses in the accommodation sector because although the tax will be directly targeted at the top 500 polluters (and none are operators of accommodation businesses), the cost of permits for the biggest polluters will be passed through the supply chain to the accommodation industry. There is significant uncertainty regarding the impact on business of the carbon tax, however estimates indicate an increase in the vicinity of 10 per cent for energy bills alone.
- The Accommodation Association submits that FWA should not award an increase in excess of 2.25 per cent on minimum wages in modern awards, as well as 2.25 per cent to the national minimum wage. Such a scenario would preclude many businesses from consolidating on 2011, where our industry is still in recovery mode from the global financial crisis. The downturn in the tourism industry means predictions for trading in 2012 and 2013 are underwhelming, to say the least.
- An increase of no more than 2.25 per cent will also assist businesses that have incurred economic hardship from recent floods in regional communities of Queensland and NSW.

INTRODUCTION

1. The Accommodation Association of Australia welcomes the opportunity to make the following submission to Fair Work Australia (FWA) as part of the 2011-12 Annual Wage Review.
2. In making this submission, the Accommodation Association is aware that many member businesses are experiencing adverse trading conditions, which are affecting employment levels and hours of work available to certain employees.

ABOUT THE ACCOMMODATION ASSOCIATION

3. The Accommodation Association is the national industry body for the Australian accommodation industry.
4. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and timeshare establishments in metropolitan, regional and rural Australia across all states and territories.
5. The Accommodation Association is the only organisation representing this full range of accommodation types and interests nationally, in rural and regional Australia, as well as the major cities.
6. The Accommodation Association's membership base includes almost 2000 properties and more than 110,000 guest rooms.
7. Over 80 per cent of these businesses are SMEs and they all are part of Australia's dominant services sector, which represents over 80 per cent of our national economy.
8. The Accommodation Association's members include major hotel chains and groups, including Accor Hotels, Mirvac Hotels and Resorts, Hilton Hotels, Toga Hospitality, Mantra Group, Rydges Hotels, Amora Hotels, InterContinental Hotels Group, 8Hotels, Starwood Hotels and Resorts, Best Western Hotels, Golden Chain Motel Group, ARRA Accommodation Group (Budget, Paragon and Orbit motels) and Quest Serviced Apartments.

TOURISM AND ACCOMMODATION – OVERVIEW

9. Tourism contributes \$34 billion to Australia's gross domestic product (GDP), a 2.6 per cent share.¹
10. Around 500,000 Australians are employed in the Australian tourism industry – 4.5 per cent of total employment.²
11. Employment within Australia's accommodation sector is 109,945.³
12. Tourism is Australia's leading services export and it is the sixth-largest total export earner.⁴

¹ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, May 2011, Page 44

² Ibid, Page 44

³ Tourism Accommodation – Australia, September Quarter 2011, Australian Bureau of Statistics

13. Tourism contributes \$23 billion or 9 per cent of Australia’s total export earnings for all goods and services.⁵
14. There are 4279 tourism accommodation establishments in Australia.⁶
15. There are 227,320 tourism accommodation rooms within Australia and 640,454 bed spaces.⁷
16. Tourism’s share of the Australian economy has been declining.
17. The number of domestic overnight trips taken by Australians has fallen by 1.1 per cent on average each year over the period 2001-2010.⁸
18. The total number of domestic visitor nights fell by 1.2 per cent on average each year between 2001-2010.⁹
19. Tourism has a number of unique characteristics in comparison to other industries. These include:
 - It is highly labour intensive;
 - It requires the input of many service providers into a single “product” to the end consumer;
 - It is dominated by a significant number of small businesses;
 - Tourism competes against all other discretionary expenditures for the “hearts and minds” expenditure of the consumer; and
 - Tourism businesses operate in a highly complex environment requiring significant compliance skills and costs.
20. Accommodation is clearly a vital and integral part of the tourism market. Indeed, accommodation and travel are the two unavoidable components of tourism.
21. In recent years, domestic consumers have reduced discretionary spending due to high fuel prices and the global financial crisis.

WAGE CONCERNS FOR ACCOMMODATION INDUSTRY

22. Key issues of concern to the accommodation industry as a result of more than a 3.4% wage increase in 2011 include:
 - Continuing economic uncertainty resulting in less than average tourism revenue when compared to previous years;
 - Many members having to make additional payments, including administrative costs, as they transferred to the modern hospitality award;

⁴ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, May 2011, Page 45

⁵ Ibid, Page 45

⁶ Ibid, Page 55

⁷ Ibid, Page 55

⁸ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, May 2011, Page 26

⁹ Ibid, Page 26

- An increase in casualisation due to the modern hospitality award; and
 - A matching reduction in working hours.
23. Accommodation employers in most States are continuing to address a range of new conditions, which, in the majority of cases, have resulted in higher wage costs and reduced flexibility for rostering of hours, which in turn has resulted in the engagement of more casual employees at higher loaded rates.
 24. The increase in employer superannuation guarantee has not put in place a legally binding wages or superannuation trade-off.
 25. The increase in superannuation without measures to fund the rise or offset the cost to businesses will result in loss of jobs and/or reduced hours.
 26. The Accommodation Association sees a greater need for wage increases in addition to superannuation costs, to be offset by productivity increases so that employees' take-home pay can grow, but not to the detriment of the business and their long-term employment prospects. Equally, the annual wage review should not lead to an outcome that works against the Fair Work Act's encouragement of enterprise level bargaining.
 27. The accommodation sector is extremely vulnerable to a high Australian dollar as it makes Australia a less attractive holiday and corporate (business travel) destination. The Australian dollar seems set to remain high for the foreseeable future placing increased pressure on a sector that remains sluggish following the global financial crisis and is on the negative part of the spectrum in the two-speed Australian economy.
 28. Due to the number and extent of natural disasters that have already occurred in 2011, yield is well down. In 2012, much of the state of NSW has been subject to major flooding.
 29. In October 2011, the cost of the industrial dispute involving Qantas to the accommodation market has been estimated to have cost millions of dollars, due to cancelled rooms, cancelled conferences and group businesses and pre-existing staff rostering commitments where staff still had to be paid despite having shifts cancelled.

ECONOMIC EFFECT OF A WAGE INCREASE

30. An increase to minimum wages this year resulting from the minimum wage review is likely to have a profound effect on the accommodation industry at a time when economic conditions nationally remain uncertain given the value that tourism contributes to GDP and export earnings, and the number of Australians employed in the Australian tourism industry. This effect is relevant to s.284(1)(a) in that the safety net should not be such that it then impacts on the performance and competitiveness of the national economy .
31. The heavy reliance of the accommodation industry on award wages results in a significant cost impact when the minimum wage is increased. The capacity of those currently employed to remain in employment depends on whether the accommodation sector in the current economic circumstances, can sustain current staffing levels. This is relevant to s.284(1)(b) of the FW Act in relation to workforce participation levels.

Impact on weekend/public holidays penalty rates being enforced on the Hospitality Award

32. The accommodation sector is heavily dependent on casual employees and operates 24 hours per day, seven days per week incorporating a casual loading of 25 per cent (Monday-Friday), 50 per cent (Saturday) and 75 per cent (Sunday). The effect of this is an immediate total payroll burden not experienced in many other industries operating within normal business hours. As such the accommodation sector does not have the capacity to defer or manage payroll loading costs in the same manner as other industries.
33. A further minimum wage increase would have a significant financial impact on business profitability.
34. In 2011 the Accommodation Association conducted a survey of our members to obtain tangible evidence on a range of issues including what the impact of a 3 per cent wage increase would be on their operations. The overwhelming response was that due to the current economic climate, there would be a cut in working hours for staff because a 3 per cent lift in payroll, without matching productivity improvements, was not sustainable.

Feedback from 2011 which remains relevant included:

- “We cannot afford it”;
- “We would have to close our doors like many other small businesses are already doing.”;
- “It would cost at least one person their job.”;
- “Forced reduction in staffing hours and/or a marked increase in room rates.”;
- “We would have to sell the business.”;
- “It would place a high financial burden on an already struggling business and we would have to consider how we could reduce the wage component of our outgoing costs.”;
- “I would have to do more work myself and cut back on staff costs.”;
- “Definitely a reduction in staffing which will impact on the work that will need to be performed by others, as well as service provided to guests.”;
- “Would reduce staff immediately which would result in a reduction of services and amenities currently available to guests.”;
- “We are a small business, struggling to cope with the huge increase in utility costs. The increase in wages will also have a serious impact, in that I would most likely be forced to sell the business or downgrade services and cut staff back.”;
- “As the tourism industry is struggling to stay afloat at present, I would see any such increase at present would be crippling for most. As occupancy and yield are down, I do not know where this extra money is going to come from.”;

- “Would bring us close to shutting down.”;
- “Staff will suffer as they are the people who will have hours cut, so that there is less super to pay.”;
- “This would have a disastrous effect on our business. The introduction of increased super should be left as per the Federal Government’s planned increases.”;
- “I would reduce staff levels, affecting my workload and the product to the customer.”;
- “We would go out of business as this would be one more increase that we cannot sustain in a market that has been in trouble for coming up to three years”;
- “We would not be able to afford that and would need to reduce staff numbers.”; and
- “We have had floods, cyclones, GFC, high \$AUD, you name it, all hitting us, which is causing less customers to walk through the door leading to reduced room rates as competition from other motels increases. There is no way we can possibly pass on this increase to customers at present or in the foreseeable future.”

ECONOMIC INDICATORS

35. With regard to specific evidence about declining productivity in the accommodation industry, the Australian Bureau of Statistics (ABS) has produced the following relevant data.

Labour productivity indexes (a) (b)

	2006-07	2007-08	2008-09	2009-10	2010-11
A Agriculture, Forestry and Fishing	83.8	89.1	101.4	100.0	115.2
B Mining	113.8	109.6	97.0	100.0	83.6
C Manufacturing	97.1	97.5	95.5	100.0	100.1
D Electricity, Gas, Water and Waste Services	118.2	109.1	99.8	100.0	90.2
E Construction	94.8	98.7	99.4	100.0	103.1
F Wholesale Trade	95.5	102.7	101.8	100.0	101.7
G Retail Trade	90.1	91.2	94.0	100.0	98.3
H Accommodation and Food Services	112.5	107.5	105.2	100.0	98.2
I Transport, Postal and Warehousing	102.4	100.7	94.2	100.0	101.6
J Information, Media and Telecommunications	79.0	89.1	92.8	100.0	100.4
K Financial and Insurance Services	92.3	98.8	99.3	100.0	101.3
L Rental, Hiring and Real Estate Services	86.9	85.3	92.5	100.0	86.6
M Professional, Scientific and Technical Services	94.7	93.2	97.6	100.0	103.8
N Administrative and Support Services	108.3	116.5	110.7	100.0	100.7
R Arts and Recreation Services	97.6	91.7	94.7	100.0	97.2
S Other Services	100.5	93.5	97.7	100.0	92.5
12 Selected industries (c)	95.2	97.0	96.9	100.0	99.9
16 Market Sector industries (d)	95.6	96.8	97.4	100.0	99.7

- (a) Reference year for indexes is 2009-10 = 100.0.
- (b) Value added based measures
- (c) Divisions A to K and R
- (d) Divisions A to N, R and S

na not available

Source: Australian Bureau of Statistics - Experimental Estimates of Industry Multifactor Productivity, Australia: Detailed Productivity Estimates Catalogue No 5260.0.55.002 2011.

- 36. Survival rates for businesses operating in this sector remain the lowest of all private sector types. Of the 13,968 new businesses that entered the sector in 2007/08 only 6,813 (48.8%) survived to June 2011.
- 37. Research conducted by FWA indicates that relative to small businesses that utilised non-award arrangements and a combination of award and non-award arrangements, small award-reliant-only businesses were less likely to exhibit increased productivity and profitability in the period of analysis.

THE ASSOCIATION'S RECOMMENDATIONS

- 38. In preparing this submission to FWA, the Accommodation Association is conscious of the objectives of Fair Work Australia under s.284 (1) of the *Fair Work Act 2009* (the Act).
- 39. The Accommodation Association requests that FWA takes into consideration the operational issues, the proposed increase in superannuation guarantee, the introduction of the carbon tax and its impact on businesses and the recent and ongoing economic uncertainty that is a major contributing factor in the levels of staffing in the accommodation industry.
- 40. A substantial increase to minimum wages will significantly impact on the accommodation industry's ability to retain staff at current levels which will in turn impact on unemployment statistics and the productivity of the Australian economy.
- 41. The Accommodation Association recommends that FWA:
 - Pass on an increase of no more than 2.25 per cent;
 - Put in place a legally binding wages/superannuation trade-off;
 - Refrain from applying a "one size fits all" approach across all industries when applying the annual wage review. Industries experiencing little or no financial growth should be exempt from modern award minimum wage increases;
 - Consider the effect of any increase on small and medium-sized employers that are primarily effected by increases to the minimum wage;
 - Consider carefully the capacity for the unemployed and low paid to obtain and remain in employment as the unemployment rate remains low, at 5.2 per cent as at February 2012;

- Flow on increases to apprentices and trainees;
- Carefully consider the compounding effect an increase in minimum wage has on payroll in the accommodation sector which operates 24 hours per day, seven days per week and therefore must pay penalty rates on the majority of the working day, incrementally increasing total payroll burden in a manner beyond that experienced in many other industries operating within normal business hours; and
- Carefully consider the compounding effect an increase has on a sector that is award-reliant and, due to the transient nature of the industry and the highly regulated modern hospitality award part-time provision, has a large amount of casual employees on loaded rates.

CONCLUSION

42. The Accommodation Association would be happy to engage in further consultation with FWA about our policy position, as articulated in this submission.

Date: 04 April 2012