



Annual Wage Review

Submission – 2013

**Submission of the Accommodation
Association of Australia**

EXECUTIVE SUMMARY

- The Accommodation Association of Australia (“the **Association**”) recommends that the Fair Work Commission (“**FWC**”) passes on an increase of no more than 1.5 per cent.
- The basis for this position is consistent with the Minimum Wages Objective in Section 284 of the *Fair Work Act 2009* (Cth) (“**FW Act**”) and in particular, s.284(1)(a) which requires FWC 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, FWC is obliged to consider the Modern Award objective in s.134 of the FW Act.
- For reasons set out in this submission, any increase above 1.5 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.
- In making this submission, the Association reiterates the concerns regarding the increase on the superannuation guarantee charge from 9 per cent to 12 per cent, raised by the Association’s members in its written and oral submissions for the Annual Wage Review 2011-12 and which is of particular relevance this year. The superannuation payments required to be made by employers will increase to **9.25%** on 1 July 2013. Since superannuation is a cost borne by the employer and ultimately a benefit an employee receives as part of their remuneration, together with a corresponding further increase on that amount where wages increase as these are ordinary time earnings upon which superannuation is payable, the changes to superannuation are a relevant consideration.
- The Association submits that should the FWC be minded to award an increase in the minimum wages in modern awards and the National Minimum Wage, such an increase should not exceed 1.5 per cent.
- The factors on which the Association relies to justify this submission include:
 - Increases to the superannuation guarantee charge outlined above
 - The downturn in the tourism industry means predictions for trading in 2012 were and in 2013 are, underwhelming, to say the least.
- The Association’s members have been affected by the recent NSW floods in regional areas, fires and poor road surface conditions, all resulting in the inhibition of potential guests’ ability to travel to the properties. Despite a minimal increase of 0.5% in 2012, occupancy remained low throughout the industry impacting on business revenue.

- An increase of no more than **1.5 per cent** will also assist businesses that have incurred economic hardship and have barely recovered from the natural disaster in regional communities of Queensland and NSW which was also raised in the Association's submission in 201112.
- The 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.

INTRODUCTION

1. The Accommodation Association of Australia welcomes the opportunity to make the following submission to Fair Work Commission (FWC) as part of the 2012-13 Annual Wage Review.
2. In making this submission, the 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 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 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 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 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, 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

1. Tourism contributes \$73.3 billion to Australia's gross domestic product (GDP), a 5.2 per cent share of the economy.¹
2. Around 907,000 Australians are employed in the Australian tourism industry – 7.9 per cent of total employment.²
3. Employment within Australia's accommodation sector is 244,400.³
4. Tourism is Australia's leading services export and it is the sixth-largest total export earner.⁴
5. Tourism contributes \$23 billion or 9 per cent of Australia's total export earnings for all goods and services.⁵
6. There are 4241 tourism accommodation establishments in Australia.⁶
7. There are 226,555 tourism accommodation rooms within Australia and 636,001 bed spaces.⁷
8. The number of domestic overnight trips taken by Australians has fallen by 1.1 per cent despite a small increase in 2010 and 2011.⁸
9. Australians are currently travelling less in Australia for tourism purposes compared to a decade earlier. Domestic overnight trips and visitor nights in 2011 are each well down on 2001 levels i.e. 3.6% and 6.6% respectively.⁹
10. Since 2004, there has been a rapid expansion in capacity, to Australia's main outbound destination, New Zealand, and the start of the strong rise in the Australian dollar.¹⁰
11. The strong 16.7% increase in departures to the United States of America was influenced by a strong Australian dollar, which rose 12.2% to a record calendar year average of US\$1.03 in 2011, compared to 2010 estimates.¹¹
12. The Tourism Forecasting Committee forecasts that departures will continue to outgrow arrivals in future resulting in a trade deficit for the industry and the accommodation sector. Despite a forecast increase in visitor arrivals at an average of 3.3% per year between 2010-11 and 2020-21, resident departures are forecast to increase by 4.2%. It is expected that departures will continue to outgrow arrivals in future.¹²

¹ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 15

² Ibid, Page 15

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

⁴ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 15

⁵ Ibid, Page 15

⁶ Ibid, Page 23

⁷ Ibid, Page 23

⁸ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 25

⁹ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 39

¹⁰ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 49

¹¹ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 49

¹² Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 52

13. 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.
14. Accommodation is clearly a vital and integral part of the tourism market. Indeed, accommodation and travel are the two unavoidable components of tourism.
15. In 2011, the domestic visitor nights in Australia has slightly increased to 270,573 as opposed to 2010 where it was 265,393 (increase of 2.0%). But this is only a very modest increase after the slump in 2009 of nearly -5.6%.¹³
16. The December quarter 2012 trend estimate room occupancy rate for hotels, motels and serviced apartments with 15 or more rooms decreased by 0.3 percentage points to 65.5% compared with the September quarter 2012.¹⁴

WAGE CONCERNS FOR ACCOMMODATION INDUSTRY

17. Key issues of concern to the accommodation industry which resulted from the 2.9% wage increase in 2012 include:
- There has been a steady decrease in profit margins of the accommodation sector in particular every year since 2008-09 and ending in 2010-11 but the wage share of the total income has remained steady¹⁵;
 - The compulsory superannuation payments to be made by employers will increase to **9.25%** on 1 July 2013;
 - Rapid and continued expansion of Australia’s outbound tourism with Australians travelling overseas rather than within Australia;
 - Low occupancy due to the continued effect of natural calamities in regional areas as well as impact of the high Australian dollar on tourism;
 - Many accommodation operators having to make additional payments, including council rates, increased insurance premiums resulting from natural disasters, state taxes and increased energy and utilities’ costs;

¹³ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 39

¹⁴ Australian Bureau of Statistics, 8635.0 – Tourist Accommodation, Australia, Dec 2012

¹⁵ Research Report 5/2013 Accommodation and food services industry profile – Fair Work Commission February 2013, Page 5

- Impact of the carbon tax on electricity, food, transport, linen and other costs which directly and severely impacts on the tourism sector and its bottom line costs; and
 - A matching reduction in working hours on account of owners taking on the extra hours.
 - The Full Bench of the FWC has recently rejected applications by employers in the industry, including the Association, to lower penalty rates in the Hospitality Industry General Award 2010.¹⁶
18. 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.
 19. The increase in employer superannuation guarantee along with a wage increase this year will impede business growth and place hardships on several accommodation operators.
 20. 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.
 21. The Association sees an increasing 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 FW Act's encouragement of enterprise level bargaining.
 22. 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.
 23. Due to the number and extent of natural disasters that have continued to occur in 2012, yield is well down. In 2012, much of the state of NSW has been subject to major flooding. This has resulted in low occupancy due to inaccessibility of regional operators in addition to the impact of the high Australian dollar on tourism.
 24. The impact of the carbon tax has been severely detrimental to the bottom line costs of hotels and motels as the accommodation is heavily reliant on utilities such as electricity, food, transport etc. to ensure the effective functioning and operations.

¹⁶ *Modern Awards Review 2012—Penalty Rates*

(AM2012/8, AM2012/37, AM2012/59, AM2012/71, AM2012/101, AM2012/172, AM2012/177, AM2012/178, AM2012/196, AM2012/204, AM2012/215, AM2012/218, AM2012/239, AM2012/240, AM2012/245, AM2012/250, AM2012/252, AM2012/253, AM2012/266) [2013] FWCFB 1635

25. Accommodation and Food services had the second lowest business survival rate from 2007-2011 which was just over 50%.¹⁷
26. Accommodation and food services is the sector with the highest proportion of award-reliant employees since 2008-12.¹⁸
27. As compared to food services, accommodation has a higher percentage of wage and salaries as part of its total expenses.¹⁹

ECONOMIC EFFECT OF A WAGE INCREASE

1. As part of preparing this submission, the Association conducted a survey in February 2013 of our members to obtain tangible evidence on a range of issues including what the impact of a wage increase would be on their operations. This has produced the following results –
2. 69.8% of the respondents have stated that increased labour costs and/or economic conditions have led to a reduction in the hours of work/shifts provided to staff or a different basis of employment.
3. 43% have said that they cannot tolerate any wage increase in 2013 without detriment to its growth.
4. 40.2% of the respondents have stated that the 2.9% wage increase in June 2012 have resulted in businesses trying to absorb the wage increase.
5. More than 18% of the respondents have had to decrease their trading hours in 2012 to cover the 2.9% wage increase.
6. 46.2% do not expect their income (turnover) to increase from financial year end June 2012 to financial year end June 2013.
7. 46.8% have reduced their staff due to increase in labour costs for the year 2012-13.
8. A further 40.5% plan to reduce staff if labour costs increase in 2013. At the same time, 43.9% have stated that they would expand their workforce if the minimum wages were not increased in 2013.
9. 29.7% have said that a further wage increase this year will result in the managers and owners of the business working more hours.

¹⁷ Research Report 5/2013 Accommodation and food services industry profile – Fair Work Commission February 2013, Page 7

¹⁸ Research Report 5/2013 Accommodation and food services industry profile – Fair Work Commission February 2013, Page 25

¹⁹ Profile Report, Accommodation and food services industry profile-Fair Work Commission, Page 4

10. Employment growth in the accommodation sector has dropped from peak in 2008 to -5.7% in June 2012. A 52.1% of the respondents have attributed this to increase in wages and decrease in profits.
11. A very high percentage that is, 69.8% agree that increased labour costs and economic conditions have led to a reduction in the hours of work / shifts provided to staff or a different basis of employment. A huge number that is, 56% do not expect their profitability to increase from 2012 to 2013.
12. Changed economic conditions have impacted upon the operation of the business by increased operating costs, which has been confirmed by 69.1% of the respondents.
13. An overwhelming response of 69.8% stated that due to the current economic climate, there would be a cut in working hours for staff because a lift in payroll, without matching productivity improvements, was not sustainable.
14. 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 .
15. 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.
16. When asked about factors (other than wage increases) which have detrimentally affected your business over the 12 months, feedback included:

“Increased utilities costs, carbon tax, transportation costs increases”

“Electricity and Gas Charges and Rates”

“Cost of council rates and government taxes”

“Electricity and across the board price increase. Also continuing increase in Government regulations and costs. We must be the most over-regulated business sector as well as Australia in general being the most over-regulated country”

“Wet weather”

“Floods, fires, extreme heat and poor road surface conditions - all resulting in preventing or inhibiting customers’ ability to travel”

“Due to the economy Companies and General public are Travelling less, current costs to go off shore has effected tourist trade. Business trade has also been effected. Companies have changed their calling patterns”

“Floods”

“Wages wages wages!!!! Food, services and other consumables (even utilities to some extent) can all be managed effectively but staff are our backbone and in hospitality, well we're the service industry. People expect service and they'll get it no longer in Australia if this continues. Penalty rates must go or be severely revised”

“Increased energy costs, water prices, repair costs massively increased, penalty rates for casual's, cost of refrigeration gas gone through the roof, insurance costs risen, customers not willing to pay higher rates for anything”

“High AU\$ makes AU an expensive destination combined with low cost offshore destinations and carriers. The Australian dollar is riding on a high for a few years now. This has made Australia and even more expensive destination than many other places. We have not been able increase our prices as feel that this will dramatically impact on our occupancy. Many costs have gone up such as laundry, garbage collection, maintenance, electricity, water. Yet our rate remains the same if not less. There is too much pressure on costs already and if it continues hotel owners may seek to invest their money in another industry that pays a better return”

“The early calling on an election and the introduction of the carbon tax and uncertainty regarding coal seam gas exploration etc.”

“All the floods and bad weather in Queensland, and the huge increases in Insurance premiums”

“Low occupancy”

“Carbon Tax cost is now annually over \$200,000”

“Substantial increase on penalty rates, particularly Sun / Public Holiday rates (we avoid rostering staff on for these days as it is not viable, it is more viable to turn the customer away than run at a loss)”

ECONOMIC INDICATORS

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

	Accommodation and Food services	Administrative and support services	Other services	Retail trade	Rental, hiring and real estate services	All industries
% of employees reliant on award wages 2012	44.8	29.0	24.6	25.6	20.9	16.1
Gross value added - % growth over the year to December quarter 2012	0.0	3.7	-6.2	3.1	4.2	2.5
Company gross operating profits: % growth over the year to December quarter 2012	-0.8	-19.0	12.7	3.1	-0.3	-7.6
Wage Price Index: % growth over the year to December quarter 2012	2.2	3.6	3.3	2.4	2.6	3.4
Percentage annual wage growth under new Collective agreements December quarter 2012	3.4	3.8	3.7	3.0	2.5	3.4
Employment: % increase over the year to November 2012	2.5	0.8	2.6	1.3	1.9	1.0
Hours worked: percentage increase over the year to November 2012	4.1	-3.5	2.3	-1.6	0.7	0.6

Source: ABS, *Employee Earnings and Hours, Australia, May 2012*, Catalogue No. 6306.0; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2012*, Catalogue No. 5206.0; ABS, *Business Indicators, Australia, Sep 2012*, Catalogue No. 5676.0; ABS, *Labour Force, Quarterly, Nov 2012*, Catalogue No. 6202.0; ABS, *Wage Price Index, Australia, Dec 2012*, Catalogue No. 6345.0; DEEWR, *Trends in Federal Enterprise Bargaining, December quarter 2012*, <http://www.deewr.gov.au/WorkplaceRelations/Pages/Reports.aspx>;

18. There has been a drop in the operating profits over the year to the December 2012 quarter for the heavily award-reliant Accommodation and Food Services sector.

19. Room Occupancy rate

DECEMBER KEY FIGURES

Accommodation with 15 rooms or more	Sep Qtr 2012	Dec Qtr 2012	Sep 12 to Dec Qtr 12	Dec Qtr 11 to Dec Qtr 12
Trend				
Takings from accommodation (\$m)	2248.2	2252.6	0.2%	2.9%
Room occupancy rate (%)	65.8	65.5	-0.3 pts	-0.4 pts
Seasonally Adjusted				
Takings from accommodation (\$m)	2248.2	2251	0.1%	3.4%
Room occupancy rate (%)	65.7	65.5	-0.2 pts	-0.3 pts

Source: Australian Bureau of Statistics, 8635.0 - Tourist Accommodation, Australia, Dec 2012

The room occupancy rate for hotels, motels and serviced apartments with 15 or more rooms decreased by 0.3 percentage points to 65.5% compared to the September quarter in 2012.

Traditionally, hotels have higher occupancy rates than motels or serviced apartments. Over the September 2012 quarter, hotels had an occupancy rate of 72.4% compared with 59.3% for motels and 70.0% for serviced apartments.

- The September quarter 2012 trend estimate room occupancy rate for hotels, motels and serviced apartments with 15 or more rooms remained unchanged at 66.0%.

- Over the same period, the seasonally adjusted estimate decreased by 0.3 percentage points to 65.8% when compared to June quarter 2012.

Industry value added by Accommodation and food services subdivisions, 2008-09 to 2010-11

	2008-09		2009-10		2010-11	
	Value added (\$m)	% of industry value added	Value added (\$m)	% of industry value added	Value added (\$m)	% of industry value added
Accommodation	6979	23.4	7149	22.8	7046	21.1
Food and Beverage services	22820	76.6	24202	77.2	26389	78.9
Accommodation and food services	29798	100.0	31351	100.0	33435	100.0

Source: ABS, Australian Industry, 2010-11, Catalogue No. 8155.0.

THE ASSOCIATION'S RECOMMENDATIONS

1. In preparing this submission to the FWC, the Accommodation Association is conscious of the objectives of the FWC under s.284 (1) of the *Fair Work Act 2009* (the Act).
2. The Association requests that the FWC 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.
3. 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.
4. The increase in the Superannuation Guarantee should be factored into the 2013 National Wage Review and be fully offset given that:
 - The additional burden of increased superannuation costs to the employer comes with no increase in productivity. This is consistent with decisions in 1986 and 1992 in consideration of employer contributed superannuation in relation to the national wage reviews in those years.

- Increases resulting from the National Wage Review will flow through to increases in workers compensation insurance and payroll tax (where applicable) as the calculation of both these costs include the superannuation component of wages.
 - Specifically the resultant increases to gross wages will cause many accommodation providers to cross into their respective state Payroll Tax threshold. This will result in either an additional burden of tax on the businesses captured or their reduction in employee hours in order to avoid being captured in the threshold.
5. The Association recommends that the FWC:
- Pass on an increase of no more than 1.5 per cent;
 - Put in place a legally binding wages/superannuation trade-off;
 - 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 5.4 per cent as at February 2013;²⁰
 - 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

The Association welcomes the opportunity to engage in further consultation with the FWC about our policy position, as articulated in this submission and submits its expression of interest to appear in the final consultations in Sydney on 22 May 2013.

Date: 5 April 2013

²⁰ Australian Bureau of Statistics, 6202.0 - Labour Force, Australia, Feb 2013