



**Accommodation  
Association  
of Australia**

**Annual Wage Review – 2014**

**Submission to the Fair Work Commission**

## EXECUTIVE SUMMARY

- The Accommodation Association of Australia (the “**Association**”) recommends to the Fair Work Commission (the “**FWC**”) that:
  - there be no increase to minimum wages in the Hospitality Industry (General) Award;
  - it considers the effect of any increase on small and medium-sized employers that are primarily effected by increases to minimum wages as required under s.3 (g) of the Fair Work Act 2009 (the “**FW Act**”);
  - it carefully considers the compounding effect that any increase in the minimum wage would have on the award-reliant accommodation industry which is very transient in nature; and
  - it takes into account the softening economy when making its determination
  
- The increase in the Superannuation Guarantee should be factored into the 2014 Annual Wage Review and be fully offset given that:
  - increases resulting from the Annual 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; and
  - specifically the resultant increases to gross wages will cause many accommodation businesses 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.
  
- The factors on which the Association relies to justify maintaining the current national wage rates include the fact that any national wage increase will coincide with the commencement of other higher labour imposts, creating a compounding burden on the industry. The imposts include:
  - increased weekend and public holiday penalties in the modern award, where penalty rates will apply on top of penalty rates; and
  - higher wages for apprentices
  
- The Association submits that if the FWC be minded to award an increase in the minimum wages in modern awards and the National Minimum Wage, such an increase should be minimal.
  
- Any 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.

## ABOUT THE ACCOMMODATION ASSOCIATION

1. The Association is the national industry body for the Australian accommodation industry.
2. Members of the 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.
3. 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.
4. The Association's membership base includes almost 2000 properties and more than 110,000 guest rooms.
5. Over 75 per cent of the membership of the Association is based in regional areas of Australia. That is those members are outside the metropolitan areas of the state and territory capitals.
6. Over 80 per cent of these businesses are small-to-medium enterprises (SMEs) and they all are part of Australia's dominant services sector, which represents over 80 per cent of our national economy.

## INTRODUCTION

7. The Association welcomes the opportunity to make the following submission to the FWC as part of the 2014 Annual Wage Review.
8. 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.
9. The basis for the Association's positions is consistent with the Minimum Wages Objective in Section 284 of the 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*".
10. We note that in addition to s.284, FWC is obliged to consider the Modern Award objective in s.134 of the FW Act.
11. For reasons set out in this submission, any increase to the minimum Modern Award wages would have a significant impact on the accommodation sector and its ability to employ and keep employed workers directly relates to workforce participation levels.

## TOURISM AND ACCOMMODATION – OVERVIEW

12. Tourism directly contributes \$42.0 billion to Australia’s gross domestic product (GDP), a 3.7 per cent share.<sup>1</sup>
13. There are 543,600 persons directly employed in the Australian tourism industry – 2.1 per cent of total employment.<sup>2</sup>
14. Along with education, tourism is Australia’s leading services exporter.<sup>3</sup>
15. Tourism contributes \$23.7 billion or 8 per cent of Australia’s total export earnings for all goods and services.<sup>4</sup>
16. Accommodation/food services provide 33.3 per cent of tourism’s gross value added to the Australian economy, worth \$10.454 billion.<sup>5</sup>
17. There are 232,400 persons directly employed in the accommodation/food services sector of the Australian tourism industry and a further 12,000 are indirectly employed, meaning total employment in the Australian accommodation/food services sector is 244,400.<sup>6</sup>
18. There are 4241 tourism accommodation establishments in Australia.<sup>7</sup>
19. There are 226,555 tourism accommodation rooms in Australia and 636,001 bed spaces.<sup>8</sup>
20. Tourism’s share of the Australian economy has been declining.
21. The number of domestic overnight trips since 2001 is down by 3.6 per cent.<sup>9</sup>
22. The total number of domestic visitor nights since 2001 has fallen by 6.6 per cent.<sup>10</sup>
23. Accommodation is clearly a vital and integral part of the tourism market. Indeed, accommodation and travel are the two unavoidable components of tourism.
24. In 2011, domestic visitor nights in Australia increased to 270,573 as opposed to 2010 where this figure was 265,393 (increase of 2.0%). But this is only a very modest increase after the slump in 2009 of nearly -5.6%.<sup>11</sup>

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<sup>1</sup> Tourism Research Australia, iPhone application, retrieved 27 January 2014

<sup>2</sup> Ibid

<sup>3</sup> Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, September 2012, Page 14

<sup>4</sup> Ibid, Page 14

<sup>5</sup> Ibid, Page 18

<sup>6</sup> Ibid, Page 19

<sup>7</sup> Ibid, Page 23

<sup>8</sup> Ibid, Page 23

<sup>9</sup> Ibid, Page 38

<sup>10</sup> Ibid, Page 38

<sup>11</sup> Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, Sept 2012, Page 39

## WAGE CONCERNS FOR ACCOMMODATION INDUSTRY

25. Key issues of concern to the accommodation industry include:

With the introduction of modern awards, members of the Association in most jurisdictions experienced a significant penalty increase in the percentage of the minimum wage rates for performing work on weekends and public holidays. A further and the final incremental penalty percentage increase will coincide with any national wage increase in July 2014, compounding the burden for employers if the national wage is increased.

Incremental penalty percentages will significantly burden newly incorporated companies that were set up after 27 March 2006. Penalty percentage increases are as follows.

### **Penalty Rates transition to Hospitality Industry (General) Award**

Year	Mon - Friday 7PM – 12AM	Mon – Friday 12AM 7AM	Saturday	Sunday	Public Holidays
2009	0%	0%	0%	0%	0%
2010	2%	3%	5%	15%	50%
2011	4%	6%	10%	30%	100%
2012	6%	9%	15%	45%	150%
2013	8%	12%	20%	60%	200%
2014	10%	15%	25%	75%	250%

26. These percentage increases, especially if applied to higher minimum wages, will impose costly restrictions on small businesses which operate outside standard working hours and days, as the overwhelming majority of members of the Association are. As noted in last year's minimum wage decision the impact and needs of small business are a relevant consideration for the FWC as they play a significant part within the Australian economy and have higher levels of award reliance and therefore will suffer a direct tangible impact from an increase to the minimum wage. On this basis it is submitted that the needs of small business employers which constitute the vast majority of the Association's members are considered in light of the impact of minimum wages on the payment of penalty rates.

27. The new regime will see penalty rates apply on top of penalty rates, a scenario which has the potential to cause significant economic difficulties for the accommodation industry.

28. Higher wage rates for some apprentices commence in July 2014.

29. The compulsory superannuation payments to be made by employers will increase to **9.5%** on 1 July 2014;

30. 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 steady<sup>12</sup>;

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<sup>12</sup> Research Report 5/2013 Accommodation and food services industry profile – Fair Work Commission February 2013, Page 5

31. Rapid and continued expansion of Australia's outbound tourism with Australians travelling overseas rather than within Australia;
32. Many accommodation operators have to make additional payments, including council rates, increased insurance premiums resulting from natural disasters, state taxes and increased energy and utilities' costs;
33. 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
34. Accommodation employers in most States/Territories 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.
35. The increase in employer superannuation guarantee along with a wage increase this year will impede business growth and increase financial hardship on several accommodation operators.
36. 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.
37. 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.
38. The accommodation industry 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.

## IMPACT OF THE CARBON TAX

39. The accommodation industry is strongly opposed to the carbon tax and supports its repeal as a priority.
40. 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.
41. Accommodation and Food services had the second lowest business survival rate from 2007-2011 which was just over 50%.<sup>13</sup>
42. Accommodation and food services is the sector with the highest proportion of award-reliant employees since 2008-12.<sup>14</sup>
43. As compared to food services, accommodation has a higher percentage of wage and salaries as part of its total expenses.<sup>15</sup>

## INCREASE IN SUPERANNUATION GUARANTEE

44. It is the submission of the Accommodation Association that the accommodation industry has concerns about the increase on the superannuation guarantee charge from 9 per cent to 12 per cent.
45. This was raised by the Association's members in written and oral submissions for the Annual Wage Review 2013, and is again a relevant consideration within this year's review as per comments made by the FWC in paragraph 356 of the 2012-13 annual wage review decision (Annual Wage Review 2012-13 [2013] FWCFB 4000).
46. The superannuation payments required to be made by employers will increase to **9.5%** on 1 July 2014. 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.

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<sup>13</sup> Research Report 5/2013 Accommodation and food services industry profile – Fair Work Commission February 2013, Page 7

<sup>14</sup> Research Report 5/2013 Accommodation and food services industry profile – Fair Work Commission February 2013, Page 25

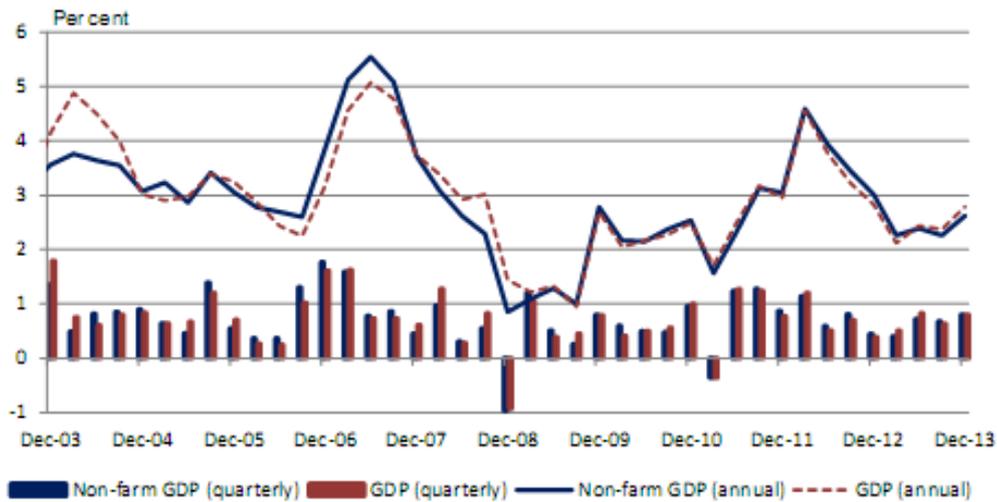
<sup>15</sup> Profile Report, Accommodation and food services industry profile-Fair Work Commission, Page 4

## ECONOMIC INDICATORS

47. The table below shows patchy economic growth

### 1. Economic growth

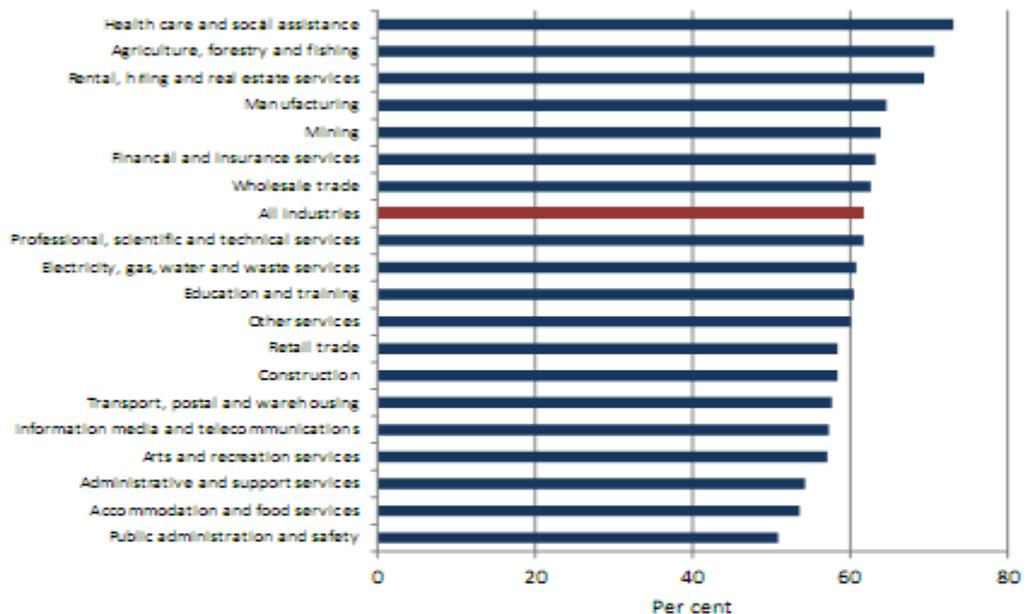
Chart 1.1: Economic growth, annual and quarterly growth rates



Source: ABS, Australian National Accounts: National Income, Expenditure and Product, Dec 2013, Catalogue No. 5208.0.

48. The table below shows that the accommodation and food services is one of the lowest of all sectors when analysing business survival rates:

Chart 3.4: Business survival rates by industry, June 2008 to June 2012



Note: A surviving business is defined as a business which was actively trading in June 2008 and continued to be trading in June 2012.

Source: ABS, Counts of Australian Businesses, Including Entries and Exits, June 2008 to June 2012, Catalogue No. 8185.0.

49. Furthermore the Australian Securities and Investment Commission quarterly figures of companies entering external administration show that the 2013 calendar year resulted in 10,821 corporate insolvencies the highest on record;

Quarter	External Administrations
March 2013	2506
June 2013	2815
September 2013	2948
December 2013	2552
Total 2013	10,821

50. Employment continues to decline in the sector with a 7.2% decrease over the last twelve months as detailed in the table below;

**Table 6.3: Employment by industry for selected periods, 2004 and 2011 to 2014, '000s**

	Feb-04	Feb-11	Feb-12	Feb-13	Feb-14
Agriculture, forestry and fishing	362.1	318.5	322.3	298.7	320.9
Mining	102.1	203.5	249.5	266.9	271.2
Manufacturing	1022.3	976.3	953.3	924.0	949.7
Electricity, gas, water and waste services	89.6	150.4	154.2	136.0	157.5
Construction	760.8	990.7	996.1	1004.6	1025.8
Wholesale trade	382.3	419.7	392.8	455.6	375.6
Retail trade	1085.9	1210.2	1188.7	1201.3	1208.5
Accommodation and food services	652.7	787.3	736.1	797.2	739.6
Transport, postal and warehousing	472.6	592.1	547.3	604.0	589.0
Information media and telecommunications	214.2	212.4	217.9	212.3	199.7
Financial and insurance services	349.9	403.5	420.1	411.9	421.8
Rental, hiring and real estate services	178.1	197.0	224.0	196.7	200.5
Professional, scientific and technical services	617.1	870.4	876.9	910.9	890.6
Administrative and support services	333.7	392.1	394.7	388.5	376.8
Public administration and safety	579.9	698.4	734.6	716.4	741.5
Education and training	708.1	828.0	850.6	904.7	917.2
Health care and social assistance	953.7	1272.3	1326.6	1371.7	1425.7
Arts and recreation services	156.7	206.8	198.3	199.6	209.2
Other services	421.9	437.3	470.9	445.2	491.0

Source: ABS, Labour Force, Detailed, Quarterly, Feb 2014, Catalogue No. 6291.0.55.003.

## CONCLUSION

51. The Association looks forward to having further formal engagement with the FWC about the content in this submission.
- In preparing this submission to the FWC, the Association is conscious of the objectives of the FWC under s.284 (1) of the FW Act.
  - 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.
  - An 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. This will work against the minimum wages objective in particular section 284 (1)(b) in that it will reduce social inclusion by prompting lower levels of workforce participation. Therefore, by keeping the national minimum wage at a low level, this will enable retention of employees consistent with this objective.
  - The increase in the Superannuation Guarantee should be factored into the 2014 National Wage Review and be fully offset given that:
    - 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;and
    - 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.
  - The Association submits that the FWC:
    - apply no increase to minimum wages in the Hospitality Industry (General) Award;
    - consider the effect of any increase on small and medium-sized employers that are primarily effected by increases to minimum wages as required under the objects of the FW Act in particular section 3 (g); 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.