Australian Hotels Association

Submission to the Australian Fair Pay Commission

Concerning Minimum Wages

As submitted - 30 March, 2007
1. Introduction

The AHA is the pre-eminent tourism and hospitality industry organisation in Australia. It has in excess of 8000 members operating general and accommodation hotels.

The AHA is a federated, registered industrial organisation of employers. It has a national office and branches in each State and Territory. It also has a discrete branch to represent the interests of its accommodation members. This branch covers four and five star properties operated by the major chains.

The AHA membership employs more than 300,000 employees.

The overwhelming majority of AHA members (more than 95%) are constitutional corporations, and within the jurisdiction of the Workplace Relations Act 1996 (“the Act”).

Approximately 50% of AHA members are small businesses with less than 20 employees.

Our members operate under three federal awards and numerous NAPSAs. Currently less than 10% of AHA members operate under workplace agreements.

The tourism and hospitality industry in Australia employs more than 500,000 employees and contributes approximately 5% of Australia’s Gross Domestic Product.

Employees in the accommodation, café and restaurant industry are three times more likely (60.2%) to be award only employees than other industries (19.9%). This means that an adjustment to minimum wages affects the industry more than those that are less reliant upon the award system.

2. Workplaces of the Future

The Act seeks to maintain high levels of productivity growth in the economy by enabling more flexible employment arrangements.

It recognises that the traditional ‘one size fits all’ award approach is no longer valid for a modern economy.

It continues the move away from a centralised, occupational based industrial system to one focused on the economic capacity of specific industry sectors and negotiation at the individual workplace.
The new legislation is the next step in reforming the Australian Industrial Relations System that began under the Hawke/Keating Government in the early 1980s.

The AHA sees the Act as one element of a more comprehensive program of reform that will be necessary if we are to address the demographic and business challenges confronting the Australian community. The flexibility afforded by the new arrangements is necessary to deal with current and future labour shortages. Competition for staff and the high cost of attrition will mean that operators will need to introduce employment arrangements that promote the development and retention of high quality staff.

Each business will need to assess operational areas and job functions and establish new job and skill profiles that meet the needs of the business and the capacity and personal circumstances of individual workers. Businesses will need to focus on how to maximise the value of any staff costs and it is unlikely that there will be significant opportunities to cut real wages. The bargaining position of individual workers will remain strong.

3. Impact of the 2006 Wage-Setting Decision

In the AHA’s 2006 submission to the AFPC, we expressed concern at the high level of Australia’s minimum wage compared to many other developed countries. This is a particular concern for the tourism and hospitality industry, one of the largest industries and one of the most affected by wage-setting decisions.

Taking this into account the AHA was surprised at the size of the AFPC’s 2006 wage-setting decision. The extra cost will need to be absorbed by the industry through measures including reduction in staffing, productivity improvements, pricing increases and roster variations to minimise the impact of shift penalties and overtime.

The impact of the 2006 wage-setting decision was felt by members of the AHA more than most. Particularly as for many hoteliers, increasing prices was not a feasible option, so other measures such as job cuts or a reduction in investment were undertaken to ensure that low profit margins are not further eroded, especially in regional areas coping with the drought.

The AHA believes the AFPC needs to give more weight in its decision making in a paper by Joel Butler - Minimum Wage Laws and the Wage Regulation: Do Changes to a Minimum Wage Affect Employment Levels contained in the UNSW Law Journal (Vol 29(1)) which states:

"If the empirical evidence is applied to Australia, it clearly demonstrates that the national minimum wage in Australia has probably resulted in disemployment and unemployment in the same way that it has in every other country in the world where it has been studied. There is no reason to consider that Australia is a special or different case.

Similarly, it should be expected that these unemployment and disemployment effects will be disproportionately experienced by workers who are young, female or low skilled." (Page 199)
The problems associated with the nature of the 2006 wage-setting decision were compounded by the 18 month gap from the 2005 National Wage Case decision. The AHA would prefer the AFPC deliver annual wage-setting decisions thereby limiting the impact when the decision delivers higher than expected increases. The AHA also favours annual decisions as it provides assistance to employers, as well as certainty for employees, provided that any decisions do not lead to increases that are a disincentive to bargaining.

4. Promoting Workplace Negotiations

The AHA has been working closely with its members to promote the take-up of workplace agreements in the sector. As explained in our 2006 submission, many AHA members have been reluctant to implement workplace agreements in their businesses because of concerns over:

- perceived limited benefits pre-WorkChoices;
- fear of the impact of industrial organisations on their business;
- lack of support and examples of “best practice”; and
- familiarity with the Award system.

The AHA is a fervent believer that the introduction of workplace agreements, whether collective or individual, is only a small part of a modern business need to improve job design, reduce turnover, promote innovation and reward skill and high performance. Agreements are an integral part of the equation as it potentially provides a business with a new, more streamlined and more understood employment platform.

Tony Blair best summed up the correlation between a change in underpinning legal structures and a change in culture in the following passage in his introduction to his government’s White Paper titled Fairness at Work:

"My ambition for this White Paper goes far wider than the legal changes we propose. It is nothing less than to change the culture of relations in and at work – and to reflect a new relationship between work and family life. It is often said that a change of culture cannot be brought about by a change in the framework of law. But a change in law can reflect a new culture, can enhance its understanding and support its development."

The AHA’s vision for the expansion of workplace agreements within the industry goes well beyond the immediate flexibility and efficiency benefits that may be on offer. As stated, these are only a small part of the overall benefits. Agreement-making does provide a business the opportunity to change its employment framework and then more freely initiate the cultural change that will be required to meet demographic and business challenges.

An important component of bargaining in the workplace is to offer a smooth transition from an award structure to an agreement structure. This can only occur if employees see some net benefit from the change and the best way for an employer to establish this is via increased take-home pay.
This net benefit is significantly eroded each time that the Australian Pay & Classification Scales are increased. This is particularly the case in the tourism and hospitality industry, one of the largest industries and one that due to its reliance on the Australian Pay & Classification Scales is most significantly impacted by wage increases.

This view is supported by comments from members indicating that it is difficult for them to consider implementing workplace agreements in an environment where they have already been forced to significantly increase their wage costs. The incentive to bargain at workplace level will be significantly reduced by an increase in minimum wage levels that detracts from the ability of the market to regulate wages. This is particularly so in the context of employees remunerated at wage levels which exceed the federal minimum wage.

5. Other Economic Considerations

Wage increases alone are not the only cost impacting on the hospitality industry. AHA Members surveyed in preparing this submission have indicated the following matters are also contributing to their cost of business:

- The introduction of smoking laws across the country will see a drop in revenue from anything between 5 to 30%. As well, hotels have had to undertake significant renovations to comply with the changes and to service their customers.
- A high number of our hotels are based in regional areas and have therefore been significantly impacted by the continuing drought.
- Hotel prices have increased dramatically as a result of a one off premium from poker machines and consolidation. Business will need to increase revenue or reduce costs to achieve a satisfactory return for this investment.
- The accommodation division operates in an increasingly competitive environment with one of the highest accommodation industry wages to sales ratios in the world. This is leading to a competitive advantage to countries with lower wages ratios and a dramatic drop in domestic tourism as Australians head to the Pacific islands, Asia and New Zealand. This trend is likely to increase with the advent of low cost.
- High minimum wages encourages casualisation and stifles innovative job design. A recent study conducted by the TTF established that turnover costs the accommodation sector 20% of payroll.
- Wage increases make it difficult for businesses to focus on attraction, reduction of attrition and increased productivity.
- The generational impact of wage increases. Australia’s comparatively high wage levels increase the likelihood that capital for hotel building projects will focus on sites offering lower levels of customer service. Thereby leading to reduced employment numbers and employee working hours.
6. Recommendations

The AHA recommends that:

1. The low paid are those on the minimum wage. Employees with a higher degree of skill and / or experience have a greater ability to bargain for appropriate wages and conditions and it is appropriate to allow the market to regulate wages and conditions at this level. For this reason the AFPC should only make adjustment to the current federal minimum wage (C14).

2. The AFPC should take account of the small gap between the higher than expected 2006 increase and the AFPC decision to deliver its next wage-setting decision by the middle of this year.

3. The AFPC should conduct annual wage-setting reviews, with changes to wages, if any deemed appropriate, operational at the start of the first full pay period on or after 1 July of the particular year.

4. The AFPC should consider the impact (disincentive) to agreement-making caused by AFPC wage increases.

5. The AFPC should consider the extra cost impact of increases in an industry that operates 24 hours a day, 7 days a week due to the compounded flow on effect of the increase into penalty rates – remembering that the hospitality industry incurs penalty payments during the majority of its trading hours.

6. The wage increase, if any, be expressed in percentage terms instead of a permanent weekly amount due to the compressing effect on the AP&CS.

7. The AFPC take account of the impact of tax changes on the disposable income of the low paid and any tax changes provided in the Federal Government’s 2007 budget.

8. Any increase in minimum wages should be introduced prospectively, with advance notice to employers to allow time to absorb the financial impact of increases and implement any measures required to ensure the ongoing sustainability of operations. It is proposed that a minimum three month period, from the date of determination, is necessary to ensure employers have adequate time to adjust.

9. Any wage increases should take effect from the start of a pay period rather than a set date.

10. In considering whether to increase minimum wages, the focus should be on the competitiveness of relative participants in the market, and in particular, the need to provide incentives to employ junior, trainee and disabled employees when compared with employees with a greater level of skill, experience or ability.
The AHA is concerned about the negative impact on employment of significant wage increases, and the stress the additional costs associated with wage increases place on our members – particularly when many of our members trade in drought effected regions. Equally, the AHA is committed to assisting members with the move away from the ‘one size fits all’ approach to workplace relations.

A determination of the AFPC which takes into account the factors outlined above will create the opportunity to significantly improve the sustainability and prosperity of the tourism and hospitality industry. This in turn will generate employment growth and eliminate barriers to entry to the workforce for youth, unemployed and low paid employees while protecting the relative bargaining positions of those at the lower end of the spectrum.