Australian Hotels Association

Submission to the Australian Fair Pay Commission

Concerning Minimum Wages

Final, 14 March 2008
Introduction

The AHA is the pre-eminent tourism and hospitality industry organisation in Australia. It has in excess of 5000 members operating general and accommodation hotels.

The AHA is a federally 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 around 100,000 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.

1. Workplaces of the Future

The WRA is set to undergo significant change over the next 22 months as the Federal Government implements its Forward with Fairness policies. These 22 months will be followed by implementation challenges that are part of any new system – particularly a new system of the magnitude of Fair Work Australia.

A prime part of the new system will be the Modern Awards. The implementation of a new award system is likely to create implementation challenges for our members, no matter how professionally managed. These challenges will be felt by members at the front-line of their employment relations.
The AHA sees the WRA 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.

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 in a market that increasingly sees potential employees conducting interviews of prospective employers rather than the traditional model of the employer interviewing a prospective employee.

2. Economic Considerations

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

- The introduction of smoking laws across the country has seen 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 which are only now starting to recover from the drought - if at all.
- 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.
- High minimum wages and the regulated Hospitality part time provision encourage casualisation and stifles innovative job design. A 2006 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.
Australia's comparatively high wage levels and low room rates have led to a lack of investment in new hotels. High wage costs favour hotel formats offering lower levels of customer service. Thereby leading to reduced employment numbers and employee working hours. This is inconsistent with Tourism Australia's goal of attracting high yielding visitors to Australia and ensuring dispersal to regional areas.

- High dollar makes it more attractive for Australians to travel overseas and less attractive for overseas visitors to travel to Australia. Especially in an increasingly competitive tourism market.
- High interest rates, petrol and food prices have eroded discretionary spending and reduced the attractiveness on hotel services. The increase in off premise discount liquor barns makes it more attractive to drink away from hotels.
- There continues to be limited growth in domestic tourism especially in regional towns located on the traditional holiday transit routes. These have lost overnights stays as people travel less by car because of cheap air-flights.
- All Australians will receive significant tax cuts this year.
- Cost increases in the hotel supply chain through an unreasonable wage increase will not be able to be absorbed and will lead to price increases. This will increase the CPI and hence add pressure to increase interest rates.

3. **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 consider the impact (disincentive) to agreement-making caused by AFPC wage increases.

3. 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.

4. The AFPC should consider the extra cost impact of increases in an industry that has a high casual component due to the seasonal nature of the hotel industry and the regulated nature of the Hospitality Award’s part time provisions. Increases have an extra compounding effect on casuals due to the casual loading (and penalty rates).
5. The wage increase, if any, is expressed in percentage terms instead of a permanent weekly amount due to the compressing effect on the Pay Scales.

6. 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 2008 budget.

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

8. 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.

9. Consequently, a moderate increase should be one of a temperate approach taking into account the 2007 CPI figure and in consideration of the above wage and CPI information and the practical implications of any increase for the hospitality industry. This approach is consistent with the Reserve Banks Statement on Monetary Policy (11 February 2008) in terms of its current and projected comments on the impact of wages on CPI.

4. Conclusion

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. 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.