Submission to the
Australian Fair Pay Commission

2009 Minimum Wage Review

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1. EXECUTIVE SUMMARY

The Hotel, Motel and Accommodation Association (HMAA) is the peak national body for employers in the Accommodation industry, representing a full range of accommodation types nationally, in rural, regional and metropolitan areas. Over 90% of these businesses are SMEs, and all are part of Australia’s dominant services sector which represents over 80% of our national economy. Collectively HMAA members employ tens of thousands of employees across Australia and subsequently they have a high stake in this year’s minimum wage review.

HMAA welcomes the opportunity to provide a submission and does so in the interests of the Australian Accommodation industry and on behalf of the following registered industrial organisations:

- Motor Inn, Motel and Accommodation Association of Australia (MIMAA);
- Motor Inn, Motel and Accommodation Association of New South Wales; and
- Queensland Motel Employers’ Association, Industrial Organisation of Employers (QMEA).

The performance of the Accommodation industry is influenced by fluctuations in real household disposable income, tourism levels within Australia, the availability of leisure time by consumers, exchange rates and business profits. This submission aims to provide the Australian Fair Pay Commission (the Commission) with a summary of the current conditions facing accommodation operators and an overview of the likely impact of a wage increase on employers in the Accommodation industry.

It should be noted that all references to “accommodation” in this document should be taken as referring to tourist accommodation

HMAA’s Information Sources

This submission has been informed by data and information from a number of public sector, private sector and industry sources, including:

- the Australian Bureau of Statistics;
- Tourism Australia, including Tourism Research Australia;
- Tourism & Transport Forum
• the National Tourism Alliance and various state and territory Tourism Industry Councils and Alliances.
• AFPC’s Monitoring Report on Economic and Social Indicators – July to December 2008

Additionally, HMAA has utilised information from a number of internal sources including:

• feedback from HMAA members and the broader accommodation industry through direct discussions;
• 2007 and 2008 Annual Surveys of HMAA Membership;
• other HMAA Member and Industry surveys; and
• general documentary and anecdotal information from HMAA members.

2. ECONOMIC PROSPERITY

Tourism differs from a number of other industries in that it is highly labour intensive and requires the input of a number of service providers into a single “product” to the end consumer. Furthermore the tourism industry is dominated by a significant number of small businesses who compete against all other discretionary expenditures for the “hearts and minds” and expenditure of the consumer, whilst operating in a highly complex environment requiring significant compliance skills and costs.

Accommodation accounts for over 10% of the tourism industry, making it a $10 billion industry in its own right. Accommodation is clearly a vital and integral part of the tourism market. Indeed, accommodation and travel are the two unavoidable components of tourism.

Tourism provides over 550,000 direct jobs and was responsible for creating 14,000 new jobs in the last financial year. Tourism is the point of entry for many entrants to the job market and provides significant numbers of jobs in regional communities as well as capitals cities and tourist centres. Accommodation accounts for well over 120,000 jobs in the sector.
In recent years, local consumers have reduced discretionary spending due to high fuel prices and rising interest rates. Additionally, research from Tourism Research Australia suggests that tourism is losing its share of this spend to other expenditures indicating that travel’s “share of wallet” has declined from over 16% to 13% in the last decade.

Any 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 are in a state of decline and expectations about the immediate future are uncertain.

One has only to watch media advertisements for offers of discounted prices for accommodation nationally to realise that price cutting is one effect of the global economic downturn. Fears of job loss are also having an effect on this element of discretionary spending by Australian citizens and it is expected by many economists that federal government handouts to individuals will result not in increased spending, but in personal savings as a hedge against an uncertain jobs market or mortgage payments.

HMAA believes that especially in times of economic uncertainty, the best way for the low paid to be assisted is through government mechanisms such as taxation relief, cash handouts and other relief measures. Measures such as these place no additional cost burden on employers whereas wage increases of a dollar value add additional on-costs to the employer in payroll tax, annual leave payments and workers compensation premiums. In some cases it is estimated that on-costs can add between 35-40% to direct labour costs. The percentage of course varies between businesses of different sizes.

The current status of the global economy is having a profound impact on number of international travelers. It is envisioned that backpackers will continue to enter the country however they rely mainly on budget-type accommodation which does not assist the mainstream accommodation industry.

The TTF Tourism Industry Sentiment Survey of January 2009 found approximately 63 per cent of businesses expected to make at least moderate cuts to staff levels. In addition, more than one third of tourism operators (34 per cent) had made ‘moderate’ price cuts and a further 4 per cent ‘large’ price cuts. We have already seen a number
of operators discounting prices in order to attract new customers which is having a
detrimental effect on their bottom line. At a time when operators should be injecting
money into their property upgrades they are holding back due to the uncertainty of
the economic climate in the months ahead.

Other natural factors have had a detrimental effect on the tourism/hospitality industry.
The heavy flooding in the northern parts of Queensland has had an extensive impact
on accommodation operators who are not only dealing with the lost revenue but also
the difficulty associated with attracting visitors back to the area. While some
government assistance will be made available to those affected, the down time
resulting from the disaster means that profitability and viability of thousands of
businesses, large and small will be affected.

The federal government has announced its intention to inject some $42 billion into
the Australian economy, however at this stage it cannot be known how much will be
directed to assisting the Accommodation industry. It has been communicated that
some of that injection will be directed to individual taxpayers by direct payment. In
that regard HMAA notes with interest from the AFPC’s Monitoring Report on
Economic and Social Indicators – July to December 2008 (the AFPC Monitoring
Report) – that over the period from August 2005 to November 2008, household
disposable incomes for people most reliant on the income safety net, increased in
real terms and that interaction of wages, taxes and transfers suggests there has
been continued improvement to real household disposable income for those
households most reliant on a minimum wage earner. HMAA also notes, that interest
rates are now much lower than in the early part of 2008 and that further reductions
are expected through the Reserve Bank.

HMAA suggests that the above measures will have a positive effect on household
disposable incomes and further supports HMAA’s argument that in the current
economic climate, workers who rely on the minimum wage should be assisted
through government mechanisms. Any decision to the contrary, will increase real
costs for employers and ultimately result in a greater number of job losses than
previously predicted. As stated in the AFPC Monitoring Report, employment in the
Accommodation, Cafes and Restaurant sector has been weak over the six months to
November 2008 and is expected to weaken significantly during 2009.
The capacity for the unemployed and low paid to obtain and remain in employment

Employment in the Accommodation industry mainly consists of employees paid at the award wage level. Many of these employees are engaged on a casual basis which attracts a higher base rate of pay incorporating a casual loading of, in most instances, 25%. The capacity of those currently employed to remain in employment depends now on whether the Accommodation sector in the current economic circumstances can sustain their current staffing levels.

HMAA is aware that a number of redundancies are now taking place and that in some circumstances those engaged on a full-time basis are having their employment converted to part-time. In light of the current economic conditions it is unlikely that this will change in the next six months.

HMAA members have communicated that should wages increase, they will have no choice other than to cut back on staffing levels in order to remain viable. This comes at a time when HMAA members in parts of Australia are already bracing themselves for a sharp rise in wages as a result of the Hospitality Industry (General) Award 2010 imposing higher penalty rates for weekend work and public holidays.

In the Accommodation industry labour costs account for a significant portion of a businesses operating costs and where there is a downturn in business, the area in which operators look to reduce costs is through reductions in labour with the owner/operator taking on more work themselves. In light of this it is anticipated that any decision by the Commission to increase wages is likely to result in a steep and significant rise in unemployment.

Employment and competitiveness across the economy

The Accommodation industry generally, suffers from relatively high staff attrition rates based on a perception of relatively low pay rates, difficult working hours, uncertainty of employment and lack of career pathing. For many Australians, the hospitality industry provides a “job of entry” to the workforce, rather than a career.
The Accommodation industry employs a high proportion of young workers, and significantly higher levels of part-time, seasonal and casual labour than many other industry sectors that make up the Australian economy. This places accommodation employers at heightened risk of high staff turnover resulting in increased costs due to ongoing recruitment and training efforts.

The greatest barrier to improving the attractiveness of employment in the accommodation sector is the limited capacity of most accommodation employers to increase wages, let alone compete as an equal in a highly competitive labour market which has been driven by the resources boom.

Another key issue that is relatively unique to the Accommodation sector is attracting staff to jobs in remote and regional areas. Whilst employers are able to partially address this through measures such as subsidised housing, meals and travel, such measures incur significant taxation penalties which make them unattractive or unfeasible for most smaller accommodation employers.

The average Accommodation industry SME operates at relatively low levels of profitability and return on investment which inhibit their flexibility in this area and are unlikely to improve in the foreseeable future. Any increase in wages could have an immediate and drastic effect on the already low levels of profitability.

3. ISSUES ARISING FROM PREVIOUS DECISION

It is not possible to assess with any accuracy the effects of the 2008 wage decision in isolation. That is because it has to be coupled now with the overall state of the national and global economic downturn.

4. CONCLUSION

Significant parts of this submission rely on the *Economic and Social Indicators – Monitoring Report – July to December 2008* produced by the AFPC. We note with considerable interest the final sentences in the Summary contained on page 22 of the AFPC Monitoring Report where it is stated that – “However, more businesses expect a decline in employment and it now seems inevitable that the unemployment
rate will rise. The key unknown is how sharp and how prolonged the weakening of
the labour market will be.”

It is our opinion that an increase to wages coupled with the current economic climate
and the recent natural disasters in Victoria and Queensland will have a negative
effect on employment within the Accommodation industry. In light of this opinion,
HMAA recommends that the Commission defer any wage increase for 2009.

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