Annual Wage Review 2012–13: Questions for consultations
Response of Accommodation Association of Australia

Contents

1. Productivity ........................................................................................................................................... 2
   1.1. Question to all parties ..................................................................................................................... 2
   1.2. Question to all parties ..................................................................................................................... 2

2. Real Wages, Productivity and Living Standards ................................................................. 3
   2.1. Question to all parties ..................................................................................................................... 3
   2.2. Question to all parties ..................................................................................................................... 4
   2.3. Question to all parties ..................................................................................................................... 4
   2.4. Question to ACOSS, ACCER and the Australian Government .................................................... 4
   2.5. Question to all parties ..................................................................................................................... 4

3. Underemployment ......................................................................................................................... 4
   3.1. Questions to ACCI .......................................................................................................................... 4
   3.2. Question to ABI ............................................................................................................................... 4
   3.3. Question to all interested parties ................................................................................................... 5

4. Structural Change ............................................................................................................................. 5
   4.1. Question to all parties ..................................................................................................................... 5
   4.2. Question to all parties ..................................................................................................................... 6

5. Exceptional circumstances/differential wage outcomes ....................................................... 6
   5.1. Question to all parties ..................................................................................................................... 6
   5.2. Question to all parties ..................................................................................................................... 6

6. Superannuation ................................................................................................................................. 7
   6.1. Question to all parties (in particular the Australian Government) ................................................. 7
   6.2. Question to all parties (in particular the Australian Government) ................................................. 7

7. Other ..................................................................................................................................................... 7
   7.1. Question to all parties ..................................................................................................................... 7
   7.2. Question to all parties ..................................................................................................................... 8

8. Social Inclusion ................................................................................................................................ 8
   8.1. Questions to all parties .................................................................................................................... 8
   8.2. Question to all parties .................................................................................................................... 9

9. Profits and wages shares ............................................................................................................... 10
   9.1. Question to ACCI .......................................................................................................................... 10
1. Productivity

1.1. Question to all parties

All parties are invited to consider, and comment upon an article published in the Australian Financial Review from Dean Parham ‘Productivity boost first, then labour can share’.

What are the best measures of productivity to use when thinking of the improvements that are available to share between labour and capital?

As noted in page 6, paragraph 21 of the Accommodation Association of Australia (the “Association”) submission to the Annual Wage Review dated 5 April 2013 (the “Association’s Submission”):

“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 bargaining”.

Further to this the Association submits that the Consumer Price Index (“CPI”) alongside the following factors should be considered when measuring productivity in the context of labour costs:

- accommodation is a highly labour intensive industry with less opportunity to rely on capital to reduce costs;
- the sector currently has overall low rates of occupancy, with only modest increases in recent times. This means that accommodation members are not providing services to their full capacity therefore staff levels are not at maximum capacity;
- a steady decrease in profit margins in the accommodation sector since 2008-09 to 2010-11 with wage share of total income remaining steady;
- an overall reduction in working hours within the sector with owners absorbing hours in order to reduce associated labour costs and;
- an increase in costs in the sector such as insurance premiums, in response to a range of new conditions such as the recent natural disasters which have also resulted in higher wage costs and reduced flexibility for rostering of hours which in turn has resulted in the engagement of casuals at higher hourly rates.

Overall this means that looking at the above measures of productivity is relevant as they point towards factors detracting from productivity within the accommodation sector.

1.2. Question to all parties

In Figure 55 of its initial submission, the ACTU shows that real output per hour worked (labour productivity) has risen faster than real hourly labour income, particularly since the early 2000s.¹

In Table 8.1 of their initial submission, ABI provides data showing that the source of recent trend growth in labour productivity is capital deepening.² This capital deepening is illustrated in their Chart 8.1.³ On the basis of this evidence, they conclude, “Long term

---

¹ ACTU submission at p. 56, para. 169.
² ABI submission at p. 16, para. 8.6.
³ ABI submission at p. 18, para. 9.2.
changes in the share of income are more likely to be attributable to changes in the share of inputs."\(^4\)

*Parties are invited to comment on the implications of these developments for the setting of minimum rates of pay.*

If there is capital deepening occurring then an increase to minimum rates of pay will be an adverse affect on this leading to more reliance on capital and therefore further impacting on labour productivity and the use of labour.

It is noted that the accommodation sector is highly labour intensive, therefore labour costs remain a large fixed component of employer costs as less opportunity to rely on capital (ie machinery) to replace role of employees. Therefore, if labour costs are increased employers (like some are already doing) will be forced to cut labour costs and try and absorb cost by doing labour intensive tasks themselves, and using casual as opposed to permanent staff where required.

Further when referring to the Minimum Wages Objective under s284 of the FW Act it can be seen that one relevant consideration is to take into account productivity and business competitiveness and viability. Further to promote social inclusion through increased workforce participation. Therefore, if wages are increased this will have an impact on productivity in the accommodation sector leading to a further decreased ability of employers to be able to absorb increased labour costs which will lead to a reduction in the number of hours worked and decreased workforce participation in this sector. On this basis an increase in the minimum wage above what is recommended by the Association would not be consistent with these objects.

2. Real Wages, Productivity and Living Standards

2.1. Question to all parties

*The ACTU submits that between the June quarter 2005 and the December quarter 2012:*

*The purchasing power of the NMW/C14 rate fell by 0.3 per cent;*

*The purchasing power of the C10 rate fell by 2.74 per cent;*

*The purchasing power of the AWOTE rose by 11.7 per cent; and*

*Labour productivity rose by 9.9 per cent.\(^5\)*

*The ACTU also submits that about half of award reliant employees are on rates that are greater than the C10 level, including about 9 per cent who are employed as professionals.\(^6\)*

Do any other parties dispute these figures?

The Association does not have specific information that either supports or disputes these figures and makes no comment.

---

\(^4\) ABI submission at pp. 16–17, paras 8.8–8.9.

\(^5\) ACTU submission at p. 94, para. 280.

\(^6\) ACTU submission at pp. 20–21, at paras 74–75.
2.2. Question to all parties

The ACTU has adopted the Living Cost Index—Employees as its preferred measure of changes in the cost of living for the purpose of evaluating the real value of changes to award wages, in preference to the Consumer Price Index in figures 55, 96 and 97 in its submission.7

Do any other parties have a view about which is the more appropriate measure?

The Association submits the CPI is the more appropriate measure given its widespread use throughout the economy as a relative measure, for example in the Reserve Bank of Australia’s setting of interest rates. Therefore it is a more appropriate and accurate measure to be used.

2.3. Question to all parties

In what ways, if any, is the comparison between the purchasing power parity of the Australian National Minimum Wage and that of other OECD countries, and of its value relative to median (or mean) fulltime earnings, relevant to an assessment of the needs and relative living standards of minimum wage workers in Australia?

The Association notes that as per paragraph 10 to 12 of page 4 of the Association’s Submissions the rise in the value of the Australian dollar has had a significant impact on the accommodation industry. This has occurred through a strong increase in rates of outbound departures/tourism, detracting from the rate of arrivals within Australia. If the current value of the Australian dollar is maintained or further increased then departures will further outgrow inbound tourism in the future impacting on those requiring domestic accommodation. The significance of this is a decline in revenue to accommodation employers and therefore a lesser ability to fund increases in minimum wage rates.

2.4. Question to ACOSS, ACCER and the Australian Government

Not answered, not applicable.

2.5. Question to all parties

(Please note: This question can be responded to either in writing by Friday 17 May 2013 or in oral submissions during the consultations on 21 and 22 May 2013.)

In its initial submission, the ACTU provided unpublished data from the ABS Employee Earnings and Hours survey for May 2012 by industry and occupation concerning the characteristics of workers reliant on minimum wages.8 Does any party wish to comment on the data and/or the conclusions drawn from it by the ACTU?

No

3. Underemployment

3.1. Questions to ACCI

Not answered, not applicable.

3.2. Question to ABI

Not answered, not applicable.

---

7 ACTU submission at p. 55, para. 169; p. 93, para. 278.
8 ACTU submission at pp. 15–19, paras 61–70.
3.3. Question to all interested parties

Is overemployment (the percentage of employed people in a specified population group who wanted to work fewer hours than they actually worked)⁹ a relevant consideration in the Annual Wage Review?

Although dated, the ABS information suggests that overemployment exceeds underemployment:

Between April and July 2007, the ABS surveyed Australian workers aged 15 years and older about their employment arrangements. At that time, around two-thirds (65%) felt they were working close to their preferred number of hours. While 1.4 million workers (14%) wanted to work more hours, about 2.2 million (21%) preferred to be working fewer hours.¹⁰

Considerations about over employment and under employment can be varied given an individual’s view of their capacity to work can be subjective.

It is our experience in the accommodation sector that there are levels of underemployment as there has been a push towards the use of casualised labour which is more flexible, which has in turn detracted from the use of permanent part-time staff.

As referred to throughout the Association’s submissions and further in this document, there has been increased casualisation in the accommodation industry. This increased casualisation has arisen, in part, due to the lack of flexibility in relation to other work arrangements (and in particular part-time work) under the Hospitality Industry (General) Award 2010 (the “HIGA”).

In our view, this increased casualisation is more likely to give rise to concerns about underemployment, rather than over employment, in the accommodation industry. That said, overemployment and the extent of the issue from sector to sector, is a relevant consideration in the Annual Wage Review, to the extent that the outcome of the review is likely to impact on the allocation of resources within an employer’s business based on the result of costs issues.

Further the structure of the HIGA in various areas, for example specifically in relation to penalty rates, often leads to overemployment of managerial staff and SME property owners who choose to work longer hours rather than pay for alternatives.

4. Structural Change

4.1. Question to all parties

Is there any response to the propositions advanced by the ACTU that:

Differences between turnover growth in various retail sub-sectors over the past five years reflects structural change in the pattern of retail spending (paragraphs 107 and 108); and

The rise in the employment share of Health care and social assistance, and the falling share of Retail trade is caused by structural change in the economy (paragraph 221)?

Although the Association’s industry is not within the retail sector, the accommodation industry has seen consistently low rates of overall occupancy, with consumer spending on outbound tourism to overseas destinations outweighing inbound tourism and expenditure. This has had an impact on profitability within the accommodation sector.

⁹ ABS, Australian Social Trends, Jun 2011, Catalogue No. 4102.0.
¹⁰ ABS Australian Social Trends, Jun 2011, Catalogue No. 4102.0.
4.2. Question to all parties

(Please note: This question can be responded to either in writing by Friday 17 May 2013 or in oral submissions during the consultations on 21 and 22 May 2013)

Parties are invited to comment on the observations about the process of structural change in the Australian economy made by Deputy Governor Lowe of the Reserve Bank of Australia in the following speeches:

Deputy Governor Lowe ‘The Labour Market, Structural Change and Recent Economic Developments’, Speech to the Financial Services Institute of Australasia (Finsia) Leadership Event, 9 October 2012. (Link to speech can be found here: The Labour Market, Structural Change and Recent Economic Developments)

Deputy Governor Lowe ‘Internal Balance, Structural Change and Monetary Policy’. Speech to the Australian Industry Group 13th Annual Economics Forum, 19 March 2013. (Link to speech can be found here: Internal Balance, Structural Change and Monetary Policy)

The Accommodation Association will review the items and may make comment where relevant in oral submissions during the consultations in 21 and 22 May 2013.

5. Exceptional circumstances/differential wage outcomes

5.1. Question to all parties

Noting the observations of the Panel about the legislative context for the consideration of exceptional circumstances in the Annual Wage Review 2011-12 Decision11, how would the supplementary exemption process proposed by the QCI12, ARA13 and others14 operate in practice given the terms of the Fair Work Act 2009 and the timeframes involved?

Given the proposed complexity of the operation of legislative provisions in this area, the Association is supportive of the Panel considering exceptional circumstances of industries including the accommodation industry and it would seek to be heard further if the Panel was seriously considering exercising its discretion to provide exemptions. Accordingly the Association reserves its rights to provide further more detailed submissions if invited to do so by the Panel.

The Association notes some unique circumstances to this sector are the fact that it is highly award reliant, labour intensive, with poor trading conditions, and overall lower productivity (due to low rates of occupancy).

5.2. Question to all parties

Given the number and coverage of those sectors seeking differential outcomes as part of this Review (including in some cases no adjustment), what would be the implications of such an approach for adjustments in other sectors where no particular outcomes have been sought?

The Association notes that if the process referred to in part 5.1 above is adopted other sectors could also be provided with reasonable notice and opportunity to provide submissions on exceptional circumstances to be considered to ensure no disadvantage.

12 CCIQ submission at p. 7, para. 15(b).
13 Australian Retailers Association submission at p. 13.
14 See for example, Business SA submission at p. 7, para 2.4.
6. Superannuation

6.1. Question to all parties (in particular the Australian Government)

In the Safety Net Review Wages April 1998 decision, the AIRC noted the Joint Governments’ estimate that a one percentage point increase in superannuation guarantee contributions would add about 0.4 per cent to the national accounts measure of average earnings.

What impact will a 0.25 percentage point increase in superannuation guarantee contributions from 1 July 2013 have on average earnings?

The Association refers to page 2 of the Association’s Submissions which state the following about the impact of the superannuation increase:

“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”.

This will lead to an increase in in increase to overall average earnings for employees which is a factor that should be considered relevant to any wage increase awarded.

6.2. Question to all parties (in particular the Australian Government)

From 1 July 2013, the Superannuation Guarantee age limit of 70 will be removed and employers will be obliged to make superannuation contributions for employees 70 years and older.

What is the likely impact of this change and how should it be taken into account in this Review?

Current data indicating this is insufficient to comment effectively.

7. Other

7.1. Question to all parties

Submissions from the ACTU, ABI, Business South Australia and the Queensland Government identified specific transitional instruments that should be considered and adjusted. Two new categories of transitional instrument that must be considered by the Panel have not been addressed in submissions, these are:
The transitional pay equity order deemed to operate from 1 January 2010 under Schedule 3A of the Fair Work (Transitional Provisions & Consequential Amendments) Act 2009. Following modifications to the Fair Work (Transitional Provisions & Consequential Amendments) Act 2009 that took effect in 2012, the Commission is now required to review this instrument under Part 2–6 of the Act;\textsuperscript{21} and

Instruments created under Part 6–3 of the Act following the commencement of the Fair Work (Transfer of Business) Amendment Act 2012 in December last year.\textsuperscript{22}

The Panel invites the parties to comment on how these instruments should be considered in this Review.

We do not oppose these instruments being considered and adjusted in a similar way to the modern awards under consideration by the Commission.

7.2. Question to all parties

Few submissions directly addressed the variation of piece rates, though the ACTU supported a flow on of any minimum wage increase awarded as part of this Review to piece rates.\textsuperscript{23}

The Panel invites the parties to consider and comment on how piece rates should be considered in this Review.

The Association’s position on this issue is reserved given it is not a relevant consideration for the majority of its membership base.

8. Social Inclusion

8.1. Questions to all parties

All parties are invited to consider, and comment upon, the following documents:


The Association considers that the primary objective of this question is to seek engagement from the parties in respect of how the Commission should / could manage issues relating to vulnerable workers such as the young and the low-paid in the context of the 2012-13 Annual Wage Review, through the issues raised in the Mission Australia Survey and the UK Low Pay Commission Report.

Mission Australia Report


\textsuperscript{22} The *Fair Work (Transfer of Business) Amendment Act 2012*, following its commencement on 4 December 2012, inserted a new Part 6–3 into the Fair Work Act 2009 covering the creation of these new instruments.

\textsuperscript{23} ACTU submission at p. 131, para. 419.
The Association understands this survey was prepared by Mission Australia in order to understand the values and issues of young people within society.

While the Survey did indicate questions in relation to the participants paid work structure, the majority of the survey is directed to determining the broader attitudes of young people towards their current emotional, mental and financial circumstances and the future.

The Association observes that some relevant national figures raised include:

- the substantial majority of youth are engaged in part-time employment (38.9% of respondents);
- many young people work part-time on account of combining work with study, with 93.9% of respondents studying full time;
- one third (34.1%) of respondents were looking for work;
- only 0.6% of respondents were working full time; and
- over half of respondents highly valued financial security.

A breakdown of these factors based upon state or territory of residence was also provided.

The Association has considered the issues raised in the Mission Australia Report and acknowledges that its members operate within an industry which employs a large number of young employees. The Association notes that due to the high cost and inflexible nature of part-time work and multi-hire provisions exacerbated by the HIGA, and also in some areas the seasonal nature of the industry, and especially in light of the arrangements for this type of work under the HIGA, many of its members choose to engage employees which may include young workers on casual arrangements. If the wage increase was modest it may make it more affordable for the Association’s members to employ permanent staff and more of them which would most likely include young people increasing career retention and career promotion prospects of “vulnerable” workers.

National Minimum Wage Document

It would be inappropriate, or at the least not helpful, to rely on the approach adopted in the United Kingdom given the factors impacting on the performance of the two economies and specifically given the different factors influencing the productivity and performance of the accommodation industry.

8.2. Question to all parties

It has been customary to measure the participation rate as the proportion of people aged 15+ who are in the workforce. Many parties do so in their submissions to this Annual Wage Review.

The ageing of the workforce and the movement of the large ‘baby boom’ cohort into the traditional retirement age bracket has caused a divergence between movements in the participation rate based on the entire population aged 15+ and that based on the population of traditional working age—either 15–64 (used, for example, in the ACTU submission24) or 20–64 (used as one of the measures in the Statistical Report prepared for this Annual Wage Review25).

The ACTU in its initial submission provides an illustration of the divergence.26 For the age group 20–64 used in the Statistical report the participation rate was higher in March 2013 (at 79.2) than in December 2011 (78.9), and unchanged from 2012. This contrasts with the

24 ACTU submission in reply at p. 6, Figure 1.
26 ACTU submission at p. 71, Figure 75.
decline in the participation rate when calculated on the population aged 15+, which has declined since 2011.

The Panel would appreciate the views of all parties on which is the best way, or ways, to measure the participation rate for the purpose of understanding the state of the labour market.

The ACTU’s measure of participation rate skews results and should not therefore be relied on, specifically as it relates to the hospitality industry and the accommodation sector within that industry. The reason for this submission is that a large proportion of workers within the hospitality industry and the accommodation sector within that industry, being workers aged between 15 and 20 years old, would not be captured by the ACTU participation rate.

The Association therefore submits a more accurate participate measure are workers aged 15+. These employees are also typically employed on a casual basis with an associated higher attrition rate and shorter career within the sector (than compared with other sectors/industries). Further it is possible, based on the above, that this omitted group of employees are never measured by reference to the hospitality industry given that they may have entered and exited the hospitality industry by the time the ACTU measure is operative (at aged 20).

9. Profits and wages shares

9.1. Question to ACCI

Not answered, not applicable.

Signed on behalf of The Accommodation Association of Australia by its
General Manager, Operations for the
Chief Executive Officer, Richard Munro

Dated: 17 May 2013