

ACCI Question on Notice – Modern Award Cost Impacts on Employers

Monday, 23 February 2009

ACCI appeared at the Senate Committee hearing in Melbourne on Tuesday, 17 February 2009. At page 20 of the transcript ACCI undertook to provide a response to a question on notice:

Senator BARNETT—And you have evidence to support that claim?

Mr Barklamb—I might take that one, Senator, if I may. We will supply you, as a question on notice, with extracts from our members' submissions to the Full Bench of the Industrial Relations Commission which quantify costs in a number of those industries.

Senator BARNETT—That would be most useful, and I do appreciate your concerns. And, finally, in relation to that, those discussions are ongoing, are they not, with the government? And is there any update you can provide the committee with regard to the extent of the concerns you have regarding the modernisation of awards?

The following information covers a number of increased costs ACCI members have calculated across key industry areas of the economy. These were calculated predominantly from the AIRC's 14 draft priority awards (September 2008).

For some industries, states and territories, the impact of imposing these draft replacement awards would be significant cost increases, and changes in the capacity to effectively structure hours of work. Some ACCI members have calculated that this will reduce their capacity to staff to effective levels, or reduce services or opening hours.

The potential impact of the draft modern awards is illustrated by the following analyses from ACCI member materials.

ACCI understands that this additional information to the Committee represents only a small sample of information on increased costs to employers as a result of award modernisation. Given that the AIRC finalised only a small minority of awards, with Stage 3 involving the modernisation of thousands of awards, employers fear they will be further exposed to increased costs as a result of this process.

Pharmacy Industry

1. **Attachment ACCI-PGA [Comparative Analysis of Wages Paid in the Pharmacy Industry, 23 October 2008, Peter Saccasan - appendices have not been attached due to size].¹**
2. Independently audited research prepared for the Pharmacy Guild of Australia shows a significant increase in labour costs as a direct function of award modernisation.
3. The independent audit of a variety of pharmacy models throughout the country indicates that:
 6. Table 1 sets out the final wages costs of the stores reviewed. It also includes results for stores in Victoria, ACT and Tasmania which were not included in the 10 October submission. This gives a picture of the impact on all states and territories. We note that in every instance except one (with only a \$658 fall), the expectation is an additional cost to pharmacy owners – in 4 states this will be \$100,000 or more, being more than a 20% increase - Western Australia, NSW, Tasmania and Queensland in particular appear to be significantly effected.
4. Table 1 of ACCI-PGA indicates the following cost increases to employers in the pharmacy industry:

¹ The entire document can be accessed here:

http://www.airc.gov.au/awardmod/databases/retail/Submissions/PGA_submission2_ed.pdf

Table 1 – Summary of impact of new Retail Industry Award on wages paid in Community Pharmacy (average increase 11.28%)

State/Location	Current Wages including current allowances	Wages under Draft Award including new allowances	\$Annual Increase in Wages	\$Annual Increase incl super, payroll tax & w/comp	% total Increase
WA – small suburban strip	307,695	338,587	30,892	33,841	11.00%
WA – medium suburban strip	616,931	734,299	117,369	131,357	21.29%
WA – large 24hr	740,880	882,792	141,912	164,008	22.14%
NSW – small strip	225,328	240,065	14738	16,293	7.23%
NSW – suburb medium strip	521,088	613,634	92,546	106,443	20.43%
NSW – large	970,212	1,118,342	148,130	173,449	17.88%
Qld – remote rural medical centre	515,643	594,440	78,797	86,179	16.71%
Qld – rural strip	485,517	537,752	52,235	57,129	11.77%
Qld – suburban shop centre	520,678	617,419	96,741	105,804	20.32%
Qld – suburban strip	474,860	546,437	71,577	78,283	16.49%
ACT suburban shop centre	419,227	480,531	61,304	68,733	17.07%
NT – remote city	321,045	325,570	4,525	5,031	1.57%
NT – remote rural medium	349,613	359,286	9,674	10,757	3.08%
SA – small rural	288,861	301,344	12,483	13,825	4.79%
SA – suburban strip	427,082	447,054	19,972	22,118	5.18%
SA – rural shop centre	506,516	505,921	(594)	(658)	-0.14%
Tas – large after hours	688,695	785,152	96,457	106,842	15.51%
Vic – large suburban	1,065,773	1,083,796	18,024	20,708	1.94%

5. The report indicates the reasons for the increased costs as follows:
 - a. New penalty rates which apply to the current base rate of pay of employees which in some cases are well above the current award rates of pay;
 - b. Increase in casual loadings in most states (excluding NSW and Vic);
 - c. Increase in garment laundry allowances in all states;
 - d. Introduction of new allowances – first aid, language, bicycle. We have been conservative in our estimation of these (see later comments);
 - e. Increase in penalty rates above existing penalty rates in some states.
6. Examining three indicative and representative pharmacy operations of different sizes, in locations throughout Australia, the Guild found:

The increased costs per annum (inclusive of superannuation and 5.5% payroll tax) are: \$190,008.58 for the large pharmacy, \$136,297.95 for the medium pharmacy and \$30,125.38 for the small pharmacy. These increases represent an increase of around 20% of current wages.

Retail Industry

7. **Attachment ACCI-ARA [ARA Submission to AIRC, 10 October 2008].**
8. Again examining indicative retail operations, the Australian Retailers Association (ARA) calculate that *“the results of our exercise clearly indicate that employers would face payroll cost increases ranging from at least an additional 8% through to a staggering figure of almost 50%”* (p.6)
9. They also indicate that most scenarios result in an increase in labour costs to employers (p.7):
 - Out of a total of 120 different scenarios, employees are disadvantaged in only one case. Hence, there are 119 instances where employer costs have increased.
10. At the hearing before the AIRC Full Bench on Wednesday, 5 November 2008, the ARA states (at PN3399):

This reveals to us that payroll costs would increase from between approximately 11 per cent or around \$20,443 per annum in the case of Victoria through to almost 22 per cent or \$30,094 per annum in the case of New South Wales, with the other jurisdictions sitting somewhere in

between. Just by way of further illustration we have arrived at figures for Queensland reflecting an increase of approximately 19 per cent, WA would be around 14.3 per cent, South Australia 19.6 per cent, Tasmania 17.6 per cent, the ACT 18.5, and the Northern Territory around 11 per cent. The approximate average annual increase between all jurisdictions based on these roster examples is around 14 per cent or nearly \$22,000 per annum.

11. Similarly, the National Retail Association (NRA) has calculated a number of different cost impacts across different States, which all result in cost increases to business.
12. **Attachment ACCI-NRA1 [Excel Spreadsheet Cost Impact Analysis NSW Example 1]**

Name of Award/NAPSA	Weekly Wage Cost
Shop Employees Award (NSW)	\$1,834.49
General Retail Industry Award 2010	\$2,053.70
Difference	\$219.22
11.95% increase	

13. **Attachment ACCI-NRA2 [Excel Spreadsheet Cost Impact Analysis NSW Example 2]**

Name of Award/NAPSA	Weekly Wage Cost
Shop Employees Award (NSW)	\$1,423.68
General Retail Industry Award 2010	\$1,633.20
Difference	\$209.52

14.72% increase

14. **Attachment ACCI-NRA3 [Excel Spreadsheet Cost Impact Analysis NSW Example 3]**

Name of Award/NAPSA	Weekly Wage Cost
Shop Employees Award (NSW)	\$26,778.97
General Retail Industry Award 2010	\$28,915.94
Difference	\$2,136.97
7.98% increase	

15. **Attachment ACCI-NRA4 [Excel Spreadsheet Cost Impact Analysis Qld 1]**

Name of Award/NAPSA	Weekly Wage Cost
Retail Industry Award (Qld)	\$17,506.52
General Retail Industry Award 2010	\$19,961.33
Difference	\$2,454.81

14.02% increase

16. **Attachment ACCI-NRA5 [Excel Spreadsheet Cost Impact Analysis Qld 2]**

Name of Award/NAPSA	Weekly Wage Cost
Retail Industry Award (Qld)	\$34,274.22
General Retail Industry Award 2010	\$39,117.85
Difference	\$4,843.63

14.13% increase

17. **Attachment ACCI-NRA6 [Excel Spreadsheet Cost Impact Analysis SA]**

Name of Award/NAPSA	Weekly Wage Cost
Video Hire SA Award	\$4,136.14
General Retail Industry Award 2010	\$4,753.82
Difference	\$617.68

14.93% increase

Hospitality Industry

18. **Attachment ACCI-RCA1 [Financial and Economic Impacts of the Introduction of the proposed *Hospitality Industry (General) Award 2010*].**

19. In a Statement to the AIRC, Restaurant & Catering Australia (RCA) calculates that the proposed *Hospitality Industry General Award* would significantly increase costs and impact upon the economic sustainability of the restaurant, café and catering industry.
20. The most significant impacts will be felt by the following proposed changes:
 - a. The increase of the casual loading from 20% to 25% in South Australia and from 23% to 25% in South East Queensland;
 - b. Addition of an extra 25% in Sunday penalty in New South Wales, South East Queensland and Western Australia;
 - c. The addition of an evening penalty (of some 10%) for all hours worked after 7pm in New South Wales, Queensland and Western Australia and Tasmania;
 - d. The significant increases in the pay rates for apprentices at each of the level of apprenticeship rates, and;
 - e. The significant increase in the junior rates in most jurisdictions.
21. RCA has identified a range of specific examples of the cost impacts of implementing the draft *Hospitality Industry (General) Award 2010* in the form released by the AIRC in September:
 - a. A NSW Restaurant with a \$2 Million per annum turnover that has an even spread of turnover over the 5 days of its operation. It opens both Saturday and Sunday with 20% of turnover on each day of the weekend - The proportion of staff that are casual is slightly higher than the average at 60% - This restaurant has a an average increase of 12.2% in its wage bill each year.
 - b. A caterer in Queensland with a half a million dollar per annum turnover with 70% casual staff would have a 8.4% increase - This business does 70% of its business on the weekend (as most caterers would) and employs two apprentices.

- c. A restaurant in NSW that does half of its \$2.5 Million turnover on a weekend would be exposed to a 15.7% increase in wage cost - In this business 80% of staff are casual and they employ a large number of apprentices in their team of 50 staff. The increase translates to a \$150,000 increase in wage costs.
- d. A restaurant business in NSW with a turnover of \$2.5 Million with 50% casual staff and 30% of staff working on Saturday or Sunday would have an increase of 13.3%.
- e. A restaurant business in NSW with a turnover of \$800,000 with 60% of staff working on the weekend would have an increase of 11.6%.
- f. A restaurant business in NSW with a turnover of \$2 Million with 60% casual staff and 20% of staff working on the weekend would have an increase of 11%.
- g. A restaurant business in NSW with a turnover of \$500,000 with no casual staff and 80% of staff working on the weekend would have an increase of 32.2%.
- h. A restaurant business in NSW with a turnover of \$4.5 Million with 80% of staff working Saturday and 60% of staff working on Sunday would have an increase of 27.7%.
- i. A restaurant business in NSW with a turnover of \$2 Million with 70% casual staff and 60% of staff working on the weekend would have an increase of 26.6%.
- j. A restaurant business in NSW with a turnover of \$300,000 with 80% casual staff and 80% of staff working on Sunday would have an increase of 20.5%.
- k. A restaurant business in South Australia with a turnover of \$750,000 with 83% casual staff would have an increase of 17.3%.
- l. A restaurant business in South Australia with a turnover of \$340,00 with 100% casual staff and 40% of staff working on Saturday would have an increase of 22%.

- m. A Monday to Friday restaurant business in South Australia with a turnover of \$500,000 with 50% casual staff would have an increase of 24%.
- 22. RCA commissioned KPMG/Econtech to prepare a report titled, *“The Economic Impact of Wage Cost Increases in the Restaurant and Catering Industry”*. [Attachment ACCI-RCA2]
- 23. The report reiterates the RCA’s overall findings of cost impacts:

Table 4.1: Overall Average Wage Cost Impacts on the Restaurant and Catering Industry of Award Modernisation.

NSW	VIC	QLD	SA	WA	TAS	ACT	Australia
3.55%	0.41%	5.35%	15.70%	1.50%	-3.70%	-0.47%	3.38%

Source: Restaurant & Catering Australia

- 24. However, the impact to jobs, as a result of increased labour costs, has also been quantified by RCA and is indicated in a report prepared by KPMG/Econtech. It indicates a 0.07 per cent reduction in employment of approximately 8000 jobs across Australia (p.20).

Higher labour costs, as a result of the changes in the wage costs results in a lower level of national employment. The reduction in employment of 0.07 per cent is equivalent to a loss of about 8000 jobs across Australia, including about 2500 jobs from Accommodation, Cafes and Restaurants and 5500 jobs from other sectors. The reduction in employment leads to a lower level of GDP. GDP is 0.04 per cent lower than in the baseline case. These national results are medium term impacts, where each sectoral capital stock level is assumed to be fixed while the sectoral employment levels are sensitive to the wage rates they face.

- 25. Worryingly, the KPMG report also indicates job losses in other areas as a result of “spill-over impacts” (p.22):

The results from MMR suggest that the increase in labour costs (except for Tasmania and ACT) hits a number of industries particularly hard. Clearly, the largest impact is felt in the Accommodation, Cafes and Restaurant sector, where the direct impacts of the wage cost increase are concentrated, employment in the industry is 0.45 per cent lower than would otherwise be the case. However, the above chart also shows that there are spill-over impacts across other industries from the wage cost increase in the Accommodation, Cafes, and Restaurants sector. In fact, employment in other industries is 0.06 per cent lower than otherwise, this is a loss of about 5500 jobs.

- 26. **Attachment ACCI-RCA3 [Witness Statements to AIRC, 17 October 2008].**

27. Two witness statements by restaurateurs were provided to the AIRC to illustrate the cost impact on these businesses as a direct result of the modern award. They were also provided at a time in the economy which was not as perilous as presently experienced.

Pier Restaurant

28. The Managing Director of The Pier Restaurant indicated the following consequences as a result of the modern award applying to their business:

49. An increase in the Sunday full-time/part-time penalty rate from 50 percent to 75 percent will increase my labour costs significantly.

50. If a new evening penalty were to be introduced from Monday to Friday my wage costs would increase markedly because most of my trade is in the evenings. However, the amount of the evening penalty set out Annexure "C" would cost more to administer than what is actually payable.

51. Labour costs are the highest expense item for Pier Restaurant, at over 33 per cent against all gross revenue. The other major expense item is rent pursuant to lease agreements. Of course, this is fixed for long periods of time.

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54. The Sunday penalty is already a heavy burden, and if it were to increase by 25 percent as well, it would have detrimental effect on the financial viability of all businesses in the industry.

55. Wage costs are high enough as it is at the moment with the turmoil on global financial markets feeding into my operating costs every day of the week. Fresh farm produce does not come cheap. Nor does high quality seafood, fresh from the source. I find it hard to understand why restaurateurs should have to shoulder Hotel award type evening penalties when our businesses are nothing a like to each other. As a restaurateur it is a tough ask to maintain high level service in a fine dining environment with wage costs increasing even more under a new Award. I have to be able to pay all my suppliers and staff on time no matter how much financial pressure my business is under.

...

60. If there was an increase in labour costs like the proposed 75 per cent for Sundays for permanent employees, reducing the number of hours of employees is not an option. I can't just raise my menu prices either, there is a certain price that customers will not be willing to pay. I would have to review our surcharge policy, but it has been in place for

some time, so a sudden change could provoke complaints from even my most regular customers.

61. The surcharge at Pier Restaurant is only payable on Sundays and public holidays. A 10 dollars per person surcharge on Sundays and 12.50 dollars per person on public holidays, respectively, per guest doesn't go anywhere near covering the relevant penalty rates, but if I removed it, Sundays could become financially unsustainable. The Modern Award could make the things even more expensive, and, honestly, I would have to take a serious look at whether it would be worthwhile. The big issue would be looking at reducing staff and this does not appeal to a person like myself that prides itself on running an upmarket business which is offering something unique to overseas tourism.

Pilu at Freshwater

29. The Managing Director of Pilu at Freshwater, a family owned business, also indicated the cost impact of the modern award as follows:

IMPACT OF THE PROPOSED HOSPITALITY AWARD

108. The introduction of a higher penalty on Sundays could have a negative impact on my lunch time trade. I may have to introduce a surcharge for Sundays, which my customers have considered unpalatable in the past, so I removed it. I know that my customers would not wear an even higher surcharge, which would be a strong possibility should there be a 175% Sunday penalty.

109. The introduction of an evening penalty, Monday to Friday, would increase costs. However, the amount of the evening penalty set out in Annexure "C" would be a burden to administer.

110. Labour costs are the second highest expense item for Pilu at Freshwater Restaurant, at 30 per cent against all gross revenue, followed by purchases (beverage and food) at 35 per cent. The other major expense item is rent pursuant to our lease.

111. The Restaurant NAPSA does not have evening loadings, which means I can serve my customers in the peak periods without being penalised. The evening loadings in the Modern Award draft would make doing business even tougher. It basically means I am being penalised for catering to peak period trade.

112. Pilu at Freshwater's profitability depends on being able to open for dinner Monday to Saturday and not having to pay extra evening loadings.

113. The high level of service demanded by customers of Pilu at Freshwater and the personal philosophy of the chef and owner Giovanni Pilu, means that service is at the heart of our business. Giovanni strongly believes in the maintaining the integrity of Italian cuisine and this is why he established the Council of Italian Restaurants in Australia (CIRA). Giovanni is passionate about Italian culinary culture, and would find it hard to reconcile cutting back on service because of labour costs rising during our peak trading times under the Modern Award.

114. It is a very tough industry, and to win two chef hats is a highly coveted prize and an honour. I don't think a restaurant critic would understand if I lost a 'Hat' because I had little choice but to reduce my service and kitchen staff because of the higher costs in the evenings and Sundays.

115. On top of that, I already put in about 60 hours a week into the business to keep it running smoothly. If I cut back on service staff to cut back on costs, my family life would come under tremendous stress. It is hard enough to juggle picking up the kids from school and keeping them happy while running a fine dining establishment like Pilu.

116. We are not in a position to cut back anyone's hours, front or back of house, because our service would suffer. It's not as simple as it sounds to let go a casual waiter or reduce our kitchen staff, because in a restaurant environment, you may have saved on your wage costs, but someone else is forced to shoulder the extra workload. This is what would happen under the draft Modern Award.

Fast Food

30. **Attachments ACCI-NRA7 and 8 [NRA Spreadsheets of Cost Impacts under *Fast Food Industry Award 2010*].**
31. Finally, by way of further example of increased employers' costs under award modernisation, the NRA also calculated the impact of the AIRC's draft *Fast Food Industry Award 2010* and summarised the resulting increase for a casual employee (in two different examples) as compared to the existing award as follows.
32. Once again, they indicate a significant increase to weekly wage costs:

Attachments ACCI-NRA7:

Name of Award/NAPSA	Weekly Wage Cost
Fast Food (SEQ)	\$1,844.05
Fast Food Industry Award 2010	\$2,081.55
Difference	\$237.49

Attachments ACCI-NRA8:

Name of Award/NAPSA	Weekly Wage Cost
Fast Food (SEQ)	\$2,257.64
Fast Food Industry Award 2010	\$3,204.21
Difference	\$946.57