



ANNUAL WAGE REVIEW 2019 - 20

SUBMISSION

COVER SHEET

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Restaurant
& Catering

**FAIR WORK COMMISSION
ANNUAL WAGE REVIEW 2018-2019**

15 MARCH 2019

Restaurant & Catering Industrial

1. Restaurant & Catering Industrial (RCI) is a national industry association that represents the interests of over 42,805 restaurant, café and catering businesses across Australia.

The Industry

2. Over the 12 months to January 2019, the café, restaurant and catering sector recorded turnover of \$26.9 billion.¹
3. Approximately 67 per cent of businesses in the café, restaurant and catering are single owner operator businesses. The vast majority are small businesses, employing between 0 and 19 employees. Approximately 92.1 per cent of café, restaurants and catering businesses fall into this category.²

Figure 1 – Retail Trade, Café, Restaurant & Takeaway Food Services, January 2019, ABS.

Turnover in the Café, Restaurant & Catering Industry							
State	Sector	Month of January			Year Ending January		
		Jan 18 (\$M)	Jan 19 (\$M)	% Change MoM	Jan 18 (\$M)	Jan 19 (\$M)	% Change YoY
NSW	Café, Restaurant & Catering Services	753.3	793	5%	8637.9	9244.8	7%
	Café, Restaurant & Takeaway Services	1295.3	1371.8	6%	15244.0	16018.9	5%
VIC	Café, Restaurant & Catering Services	562.1	589.4	5%	6580.9	6993.1	6%
	Café, Restaurant & Takeaway Services	887.3	937.4	5%	10498.5	11097.4	5%
QLD	Café, Restaurant & Catering Services	395.7	387.8	-2%	4828.8	4240.4	-14%
	Café, Restaurant & Takeaway Services	708.6	693.8	-2%	8538.8	7728	-10%
SA	Café, Restaurant & Catering Services	115.9	118	2%	1401.1	1515.3	8%
	Café, Restaurant & Takeaway Services	208.7	209.5	0.38%	2498.8	2620.3	5%
WA	Café, Restaurant & Catering Services	282.9	282.5	-0.14%	3527.4	3491	-1%
	Café, Restaurant & Takeaway Services	454.1	459.6	1%	5593.0	5600.4	0.13%
TAS	Café, Restaurant & Catering Services	27.9	32.1	13%	329.7	348.7	5%
	Café, Restaurant & Takeaway Services	55.4	62.5	11%	679.2	696.4	2%
NT	Café, Restaurant & Catering Services	16.7	12.8	-30%	245.3	235.5	-4%
	Café, Restaurant & Takeaway Services	34.6	30.2	-15%	464.5	463.4	-0.24%
ACT	Café, Restaurant & Catering Services	33.8	36.7	8%	491.6	493.9	0.47%
	Café, Restaurant & Takeaway Services	54.9	62	11%	784.8	815	4%
Total	Café, Restaurant & Catering Services	2188.3	2252.2	3%	26042.5	26908.4	3%
	Café, Restaurant & Takeaway Services	3698.8	3,827	3%	44301.3	45658.7	3%

¹ ABS (2018) 8501.0 - Retail Trade, Australia, Jan 2018.

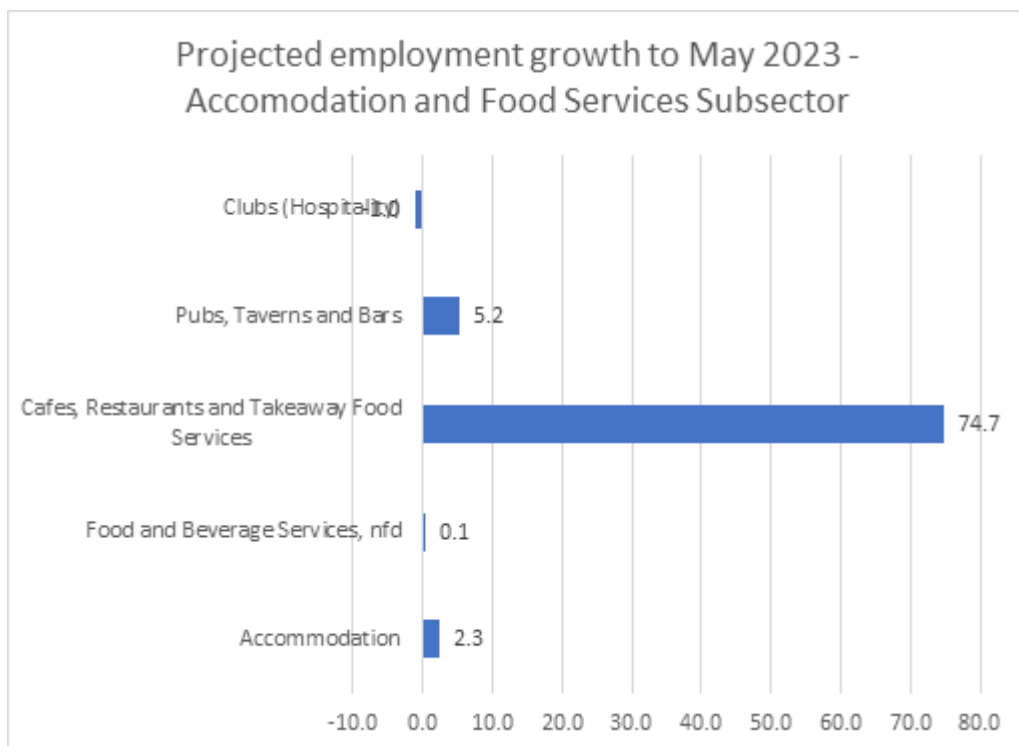
² ABS (2018) 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2018.

- The retail turnover figures in Figure 1 show a variable performance across different States and Territories, and demonstrate how the seasonal and local factors create varying market conditions across the country.

Employment

- The café, restaurant and takeaway food sector is currently the largest employer of the Accommodation and Food Services industry, employing approximately 630,000 persons as of Nov 2018.³ In total, the café, restaurant and takeaway food sector accounts for approximately 70 per cent of jobs within the Accommodation and Food Services industry.⁴
- The sector is expected to generate an additional 74,700 jobs by May 2023, representing growth of 11.8 per cent.⁵ Furthermore, the sector is expected to make the largest contribution to national employment growth out of any industry subsector.⁸

Figure 2 – Top 15 Industry sectors ranked by projected growth to May 2022.

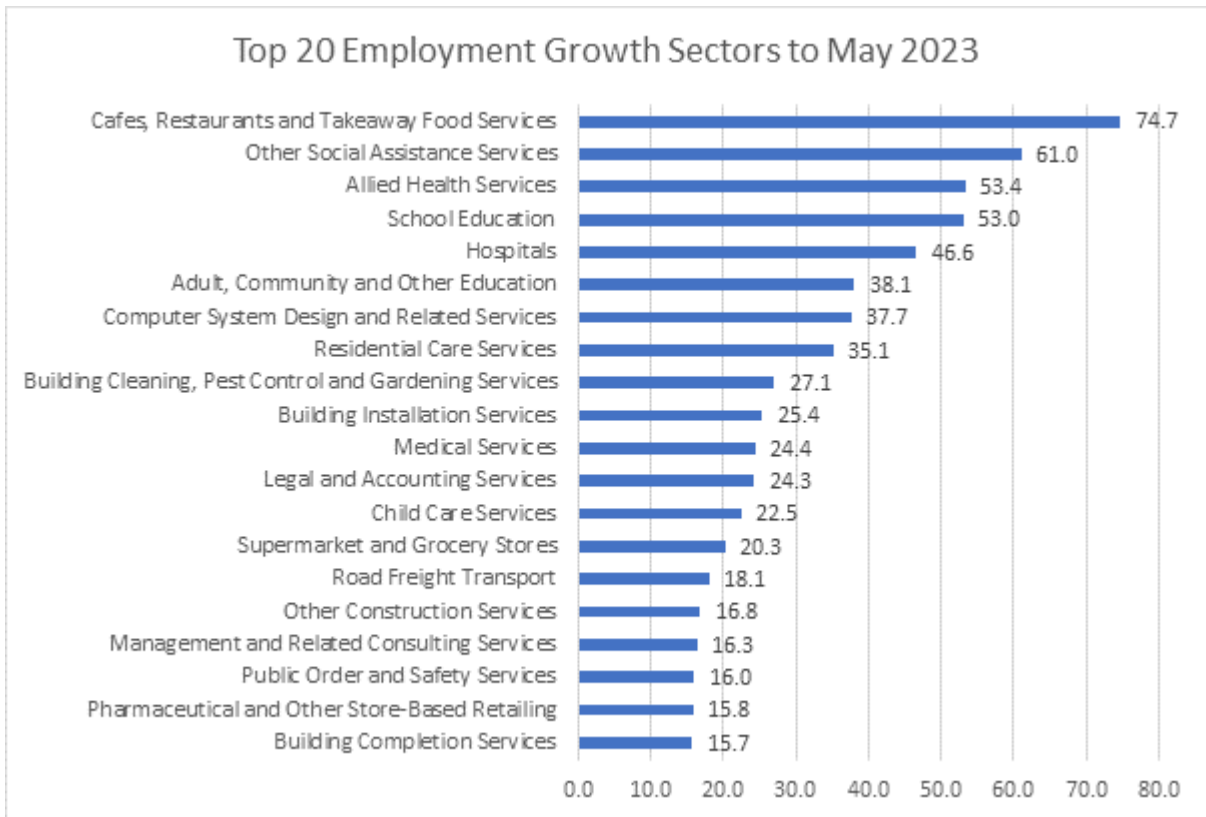


³ ABS 6291 Labour force data

⁴ ABS 6291 Labour force data.

⁵ Department of Jobs and Small Business (2018) *Employment projections for the five years to May 2023*

Figure 3 – Top 20 Employment Growth sectors to May 2022.



7. RCI submits that any significant increase to wage levels, in the award-reliant, high employing, customer facing industries, will jeopardise estimated employment growth.

8. The impact of minimum wage increases on jobs growth is elucidated within the Productivity Commission’s 2015 report on the national Workplace Relation Framework which states that “*small increases in the minimum wage are unlikely to have readily measurable effects on employment, but the larger they become, the more likely that the hours available to existing workers will fall and job opportunities for new workers (and sometimes for existing workers) will be lost*”.⁶ In RCI’s view, the increases to the minimum wage arising from previous year’s Reviews are sufficiently large enough to impact employment growth.

⁶ Productivity Commission (2015) *Workplace Relations Framework*, p.15.

9. The same report from the Productivity Commission also concluded that “*significant minimum wage increases pose a risk for employment, especially for more disadvantaged job seekers and in weakening labour markets*”.⁷ RCI argues that the Panel should not embark upon this risk by implementing a minimum wage increase.

2018-2019 AWR

10. RCI welcomes the opportunity to take part in this annual minimum wage review, specifically on behalf of its members, and the café, restaurant and catering industry generally.
11. The Panel is empowered to conduct an annual review of the national minimum wage order and the modern award minimum wages, pursuant to section 285 of the *Fair Work Act 2009* (“FW Act”).
12. In conducting a review, the Panel must consider a number of economic and social factors prescribed in the minimum wage objective (subsection 284(1)) and the modern awards objective (s134(1)) of the FW Act.
13. Subsection 284(1) of the FW Act outlines important considerations for the Panel in setting the annual minimum wage:

“(1) The FWC must establish and maintain a safety net of fair minimum wages, taking into account:

- a the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and*
- b promoting social inclusion through increased workforce participation; and*
- c relative living standards and the needs of the low paid; and*
- d the principle of equal remuneration for work of equal or comparable value; and*
- e providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

⁷ Ibid, p.2.

*This is the **minimum wages objective.***”

14. Subsection 134(2)(b) of the FW Act prescribes the application of the modern awards objective to include the performance or exercise of FWA’s modern award powers pertaining to modern award minimum wages. The modern awards objective provides:

“(1) FWA must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:

- (a) relative living standards and the needs of the low paid; and*
- (b) the need to encourage collective bargaining; and*
- (c) the need to promote social inclusion through increased workforce participation; and*
- (d) the need to promote flexible modern work practices and the efficient and productive performance of work; and*
- (e) the principle of equal remuneration for work of equal or comparable value; and*
- (f) the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and*
- (g) the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; and*
- (h) the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.”*

15. The task of setting a minimum wage by the Panel requires a careful balancing of the economic indicators specified in the abovementioned provisions, bearing in mind the fundamental impact of its decision on national economic welfare.

16. RCI argues that any decision to significantly increase the minimum wage will adversely affect the ability of businesses to create new full-time positions for the unemployed and allocate more hours of work to those who are underemployed. At the beginning of 2019, the underemployment rate was 8.3 per cent.⁸

Previous Annual Minimum Wage Decision

17. RCI believes that the Fair Work Commission's 3.3 per cent increase to the minimum wage arising from the 2016-17 Review followed by last year's increase of 3.5 per cent has ensured that wages have run ahead of any gains in productivity and therefore were not easily absorbed by family and small businesses. These are businesses employing between 0 and 19 employees. Approximately 92.1 per cent of café, restaurants and catering businesses fall into this category.⁹

18. RCI's submission to the 2016-17 Review also argued that a zero per cent increase was warranted in light of the 2.4 per cent increase handed down following the 2015-16 decision.

19. RCI is of the view that the previous four years' significant increases to the minimum wage were inconsistent with the economic indicators available at the time. With CPI growth over same 4-year period averaging 1.7 percent, the minimum wage increases outstripped this at an average of 2.9 percent over the same period.

⁸ ABS, Cat. No. 6202.0 - Labour Force, Australia, Jan 2019, Trend unemployment rate steady at 5.1%.

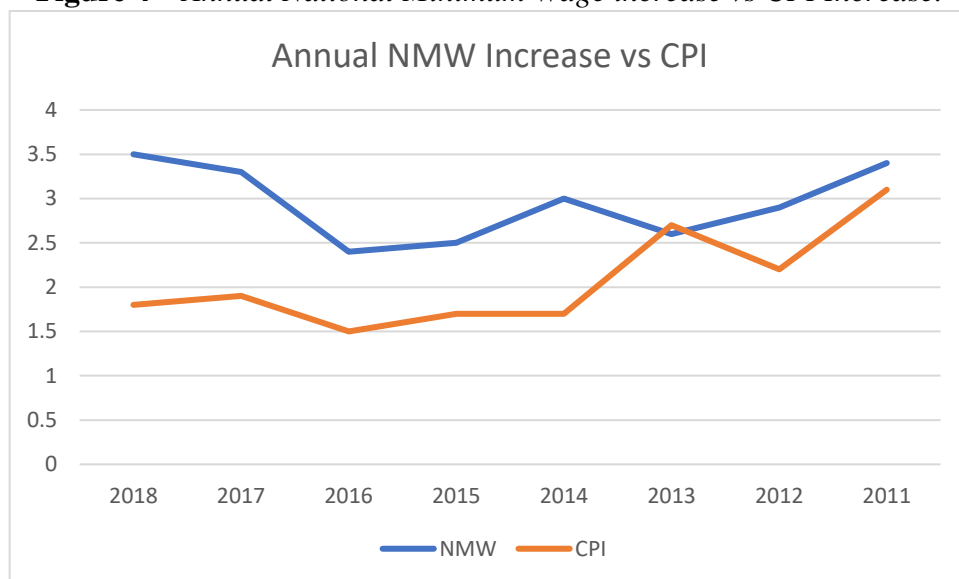
⁹ ABS (2018) 8165.0 - *Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2018*.

20. In the wider economy, according to Trading Economics¹⁰: ¹The Australian economy advanced a seasonally adjusted 0.2 percent in the December quarter of 2018, slowing from a 0.3 percent expansion in the previous period and missing market consensus of 0.3 percent. It was the weakest growth rate since the third quarter of 2016 as dwelling investment contracted and private consumption grew only modestly. Through the year to the fourth quarter, the economy expanded 2.3 percent, the slowest pace since the June quarter of 2017, after a downwardly revised 2.7 percent growth in the previous period and below market forecasts of 2.5 percent. GDP Growth Rate in Australia averaged 0.85 percent from 1959 until 2018, reaching an all time high of 4.40 percent in the first quarter of 1976 and a record low of -2 percent in the second quarter of 1974. Imposing a wide-ranging regulatory increase to the minimum wage does not take into account the capacity to pay by the award-reliant industries such as this one. Mandating a wage increase does not of itself enable the sustainable business growth that could lead to actual wage growth.

21. The graph below demonstrates **that the wage decision in 2018** (3.5 per cent) was the highest with the previous year being the second highest since 2011 (3.4 per cent).

22. . In this period, the wage decision has regularly outpaced the comparable consumer price index (CPI).

Figure 4 – Annual National Minimum Wage increase vs CPI Increase.

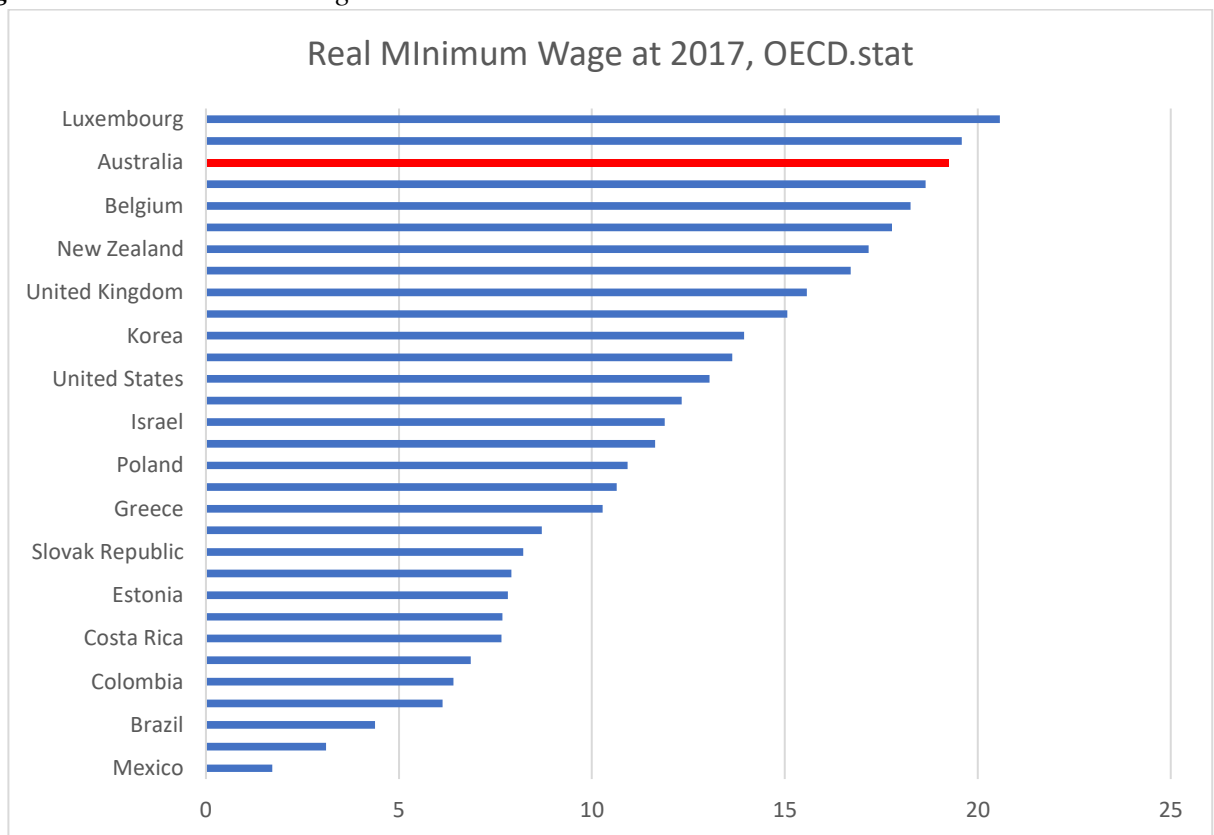


¹⁰ <https://tradingeconomics.com/australia/gdp-growth>

Impact of Higher Wages

21. RCI estimates that businesses in the café, restaurant and catering sector spend on average 48.1 per cent of expenditure on staff wages and associated on-costs.¹¹ This figure has increased from 42 per cent in 2013-14.¹²
22. Australia's minimum wage is already one of the highest relative to other Organisation for Economic Co-operation and Development (OECD) nations,¹³ and as shown in the following graph:

Figure 5: Real Minimum Wages 2017



23. The number of businesses in the café, restaurant and catering sectors has grown at approximately 3 per cent year on year to June 2018¹⁴. With an entry rate of 21.8% but an exit rate of 18.6%, this sector is characterised by a high rate of churn, demonstrating the vulnerability of this industry. The R&CA's benchmarking

¹¹ Restaurant & Catering Australia (2017) *Industry Benchmarking Report*.

¹² Ibid.

¹³ <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>

¹⁴ ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2018

survey in 2018 found that profit margins were an average of 2 percent across this sector, indicating how much pressure is on these small businesses to keep up with cost of doing business increases.

24. This is a highly competitive sector with huge price elasticity and reliance on discretionary consumer spend; the sector is not able to pass on increases in their costs to the consumer, and wage increases such as these would have a significant detrimental impact on their businesses' viability.
25. The ongoing competition for industry revenues has significant implications for industry profit margins. Cafés, restaurants and caterers operate on typically small profit margins and therefore have a reduced capacity to absorb increases in the cost of labour and other increased business costs.
26. Accordingly, RCI submits that with the varied conditions in the Australian economy, the 3.5 per cent increase in the 2017-2018 AWR was higher than necessary in the circumstances.

Award Reliance

27. The café, restaurant and catering sector, encompassed under the Accommodation and Food Services industry category, is a heavily Award-reliant industry, at around 40-50 per cent. In addition, this sector, by its nature needs to operate 7 days a week and for a wide spread of hours. The impact of penalty rates on weekend and public holiday means that the impact of a national minimum wage (NMW) increase is magnified at the dimensions shown in the table overleaf:

Figure 6: Penalty Rates - Restaurant Industry Award 2010

Type of employment	Saturday	Sunday	Public holidays
	%	%	%
Full-time and part-time	125	150	225
Casual Introductory Level, Level 1, Level 2 (inclusive of 25% casual loading)	150	150	250
Casual Level 3 to Level 6 (inclusive of casual 25% loading)	150	175	250

28. Therefore, businesses in the café, restaurant and catering sector and others within the Accommodation and Food Services industry category are more highly susceptible to large fluctuations in the minimum wage and other changes in Award settings than others.

Lack of Profit Growth

29. RCI argues that another significant increase in the minimum wage will adversely affect the ability of businesses within the café, restaurant and catering sector to operate profitably and therefore to employ more staff.

30. The growth in business numbers has created a highly competitive environment. The disproportionate increase in cost of doing business, such as increased energy prices and wages, has meant this sector is not able to pass on the increased costs, as there is little pricing power for this sector nor elasticity in the market.

Consumer Price Index (CPI)

31. At December 2018, the CPI increased by 1.8 percent over the 12 months to the December quarter.¹⁵

¹⁵ ABS 6401 Consumer Price Index

32. The variable conditions across different industry sectors, and the disproportionate impact of NMW increases on award-reliant sectors, indicate that the economy is not performing well enough across the board to warrant a sizeable, broad-based, regulated increase in wages.

33. RCI argues that the cumulative effect of the last four years' minimum wage increases and the prevailing economic conditions mean that there should be no increase in the minimum wage in 2019.

Restaurant & Catering Industrial