

VACC Submission concerning the Friday before the AFL Grand Final and Easter Sunday Public Holidays

Dated 5 August 2015



Introduction

The Victorian Automobile Chamber of Commerce (VACC) established in 1918 and federally registered in 1940, pursuant to the then *Conciliation and Arbitration Act 1934*, represents the interests of almost 5,500 mainly small businesses in the automotive industry.

The VACC is the peak body for the repair, service and retail sector of the automotive industry in Victoria and Tasmania. VACC members employ over 50,000 people and have an annual turnover of around \$50 billion.

Our members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, recreational and farm machinery), repairers (mechanical, electrical, body and repair specialists, i.e. radiators and engines), vehicle servicing (service stations, vehicle washing, rental, windscreens), parts and component wholesale/retail and distribution and aftermarket manufacture (i.e. specialist vehicle, parts or component modification and/or manufacture) and recycling.

The Victorian automotive industry is largely made up of small businesses. Small businesses with between one and 19 employees comprise approximately 54% of all automotive businesses. Medium to large business make up just 4% of the automotive industry, with the remainder operating as sole traders. About 14% of businesses have an annual turnover of less than \$50,000.

According to the Auto Skills Australia (ASA) Automotive Environmental Scan 2015, total employment in the Victorian automotive industry amounted to 100,687 for 2013-14. The planned departure of Ford, General Motors Holden and Toyota's manufacturing divisions will lead to further structural change in the industry, as importation of vehicles will rise to 100% rather than the current rate of 80%. ASA modelling shows that Victoria's automotive workforce will reduce to approximately 87,000 after the closure of manufacturing operations.

Some sectors of the industry have seen rationalisation and consolidation. As a consequence, the 2014 Automotive Environmental Scan Survey found that employment levels within the industry overall declined by 3,910 in Victoria alone over the 2012-13 financial year. Positively, the industry in Victoria has begun showing the early signs of a return to growth, with an overall increase of 1,454 jobs reported for the 2013-14 financial year in the 2015 Automotive Environmental Scan Survey. There remains significant softness in the Victorian automotive industry and VACC is concerned that anti-competitive change to the regulatory environment risks pushing the industry back into a cycle of job losses. Nonetheless, the industry has been a consistent contributor to the nation's GDP at around 2.5% as of 2013-14.

Key messages

VACC opposes the introduction of Easter Sunday and the Friday before the AFL Grand Final as public holidays. VACC argues that the Regulatory Impact Statement (RIS) on proposed new public holidays in Victoria fails to provide substantive supporting evidence for the imposition of two additional public holidays in Victoria. The alleged economic benefits are, in our view, unreliable.

The current economic climate clearly demonstrates a poor economic state for business in Victoria. Imposing the additional costs of two new public holidays and the associated penalty rates for businesses that must trade, such as roadside service, towing and service stations, will be seriously detrimental.

Economic Costs

Friday before the AFL Grand Final

The RIS estimates annualised forgone economic value of \$680 - 852 million in 2015 alone.¹ In addition, the RIS estimates increased wage payments for both public holidays as costing employers between \$252 - 286 million. The RIS does not distinguish between the Friday before the AFL Grand Final and Easter Sunday public holidays for the purposes of calculating increased wage payments. However, it is safe to assume that the vast majority of this range is attributable to the former as more employees work on the Friday before the AFL Grand Final than on Easter Sunday normally.

The significant wage increases associated with a new public holiday on the Friday before the AFL Grand Final come at a time when Victoria's automotive industry is undergoing significant consolidation. The period from June 2011 to June 2013 saw over 600 automotive business closures.² Decreased productivity from a reduction in workdays, coupled with increased payroll costs, is likely to further squeeze conditions in an industry already reeling from the announced closures of Ford, General Motors Holden and Toyota's manufacturing divisions.

Experience with other long weekends in Victoria suggests that a large proportion of VACC members will remain open should the Friday before the AFL Grand Final become a public holiday. The *Vehicle Manufacturing, Repair, Services and Retail Award 2010* (VMRSR Award) is the primary Modern Award that applies to the automotive industry. The VMRSR Award provides penalty rates of double time and a half for most workers on public holidays, a significant financial impost on business. While it may be assumed possible for some businesses to increase prices for consumers or reduce employees' wages to cover this burden, the highly competitive nature of the automotive industry means that employers will be forced to bear this additional cost.

Easter Sunday

A new Easter Sunday permanent public holiday will be less detrimental to the majority of VACC members than the Friday before the AFL Grand Final public holiday. While the majority of VACC members do not open on regular Sundays and anecdotal evidence suggests that those that do are less likely to do so on the Easter weekend under the current system regardless of the proposed changes. A large number of members (i.e. service stations, roadside services and towing) still trade on Sundays and will be adversely affected. These businesses do not have the option to close and hence will directly be affected financially. VACC supports the RIS analysis that an Easter Sunday public holiday will amount to annual forgone economic value of \$37 - 46 million.³ However, while the overall impact is smaller, VACC is concerned that this amount will be more heavily focused on those members who are required to operate on Sundays and will be adversely affected.

¹ PricewaterhouseCoopers Australia, Regulatory Impact Statement on proposed new public holidays in Victoria p19.

² Auto Skills Australia Environmental Scans for 2013, 2014 and 2015.

³ Regulatory Impact Statement p19.

The most significant impact of an Easter Sunday public holiday on VACC members will be felt by our Service Station and Convenience Store Division (SSCSD). SSCSD members primarily operate on a 24 hour 7 day per week basis and do not close for public holidays. The VMRSR Award provides penalty rates of time and a half for driveway attendants, console operators and roadhouse attendants for ordinary hours of work performed on a Sunday. This rate increases to double time for work on a public holiday. Increased penalty rates amount to a significant financial burden across the industry and directly harms businesses' bottom lines. In an industry where profit margins can be as low as 2%, such costs cannot be passed on to the consumer and are therefore absorbed into the business' bottom line.

In some areas, SSCSD members are able to close on public holidays due to increased penalty rates. Regional small businesses in the SSCSD are more likely to close for a public holiday due to the associated increased operating costs. SSCSD members provide a vital service on public holidays, including refuelling of vehicles and the purchase of basic necessities such as bread and milk. These services are particularly vital on public holidays in regional communities, where people must drive long distances to visit their family and friends and grocers are often closed.

The table below outlines where employees in the fuel retail sector that work in small businesses (1-19 employees) are concentrated in Victoria. This information is based on the 2011 ABS Census.⁴

Greater Melbourne	61.5%
Rest of Victoria ⁵	38.5%
Total	100%

Approximately 38.5% of employees that work in small businesses in the fuel retail sector reside in regional areas of Victoria. Based on this, one can presume that there exists a significant portion of fuel retailing activity in regional areas. Regional small businesses in the fuel retail sector are more likely to close for a public holiday due to the associated increased operating costs. Therefore, the data above illustrates that a significant portion of economic activity in the Victorian fuel retailing sector will be at a standstill if Easter Sunday becomes a public holiday.

Profit margins in towing are also small and contracts for roadside service cannot be renegotiated to cover financially the costs of an additional public holiday. These costs are directly borne by businesses and not passed on to consumers or the contracting business for roadside service. Due to this unplanned cost, small business operators will be forced to pay for a public holiday and perform the work themselves to avoid the penalty rate costs.

⁴ Only data of those that worked in the area a week prior to Census Night and identified the area as their usual residence were analysed to provide an accurate picture of the automotive workforce in 2011. As this data was collected in 2011, the ABS Census is a lagging indicator.

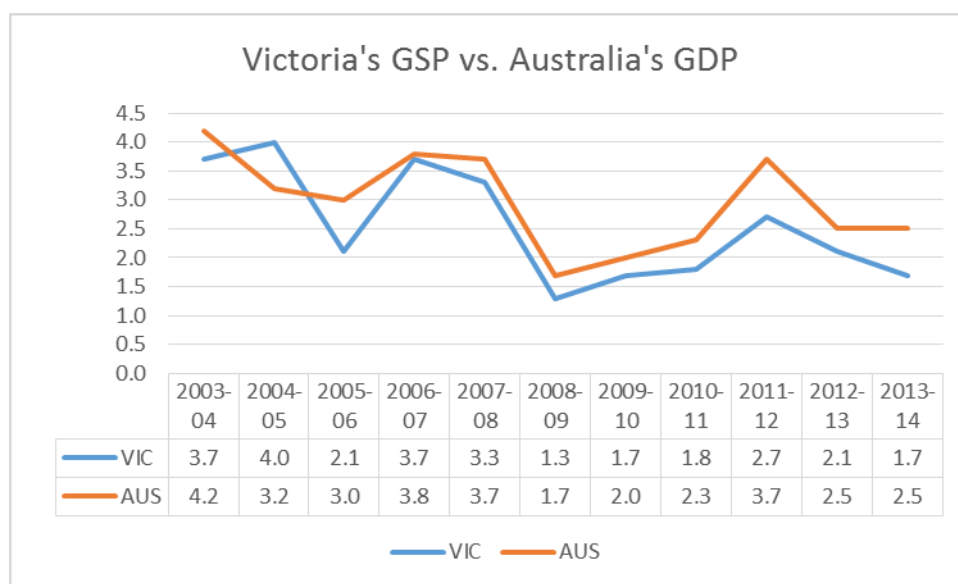
⁵ Includes Ballarat, Bendigo, Geelong, Hume, Latrobe – Gippsland, North West, Shepparton, Warrnambool and South West.

Impact on Competitiveness

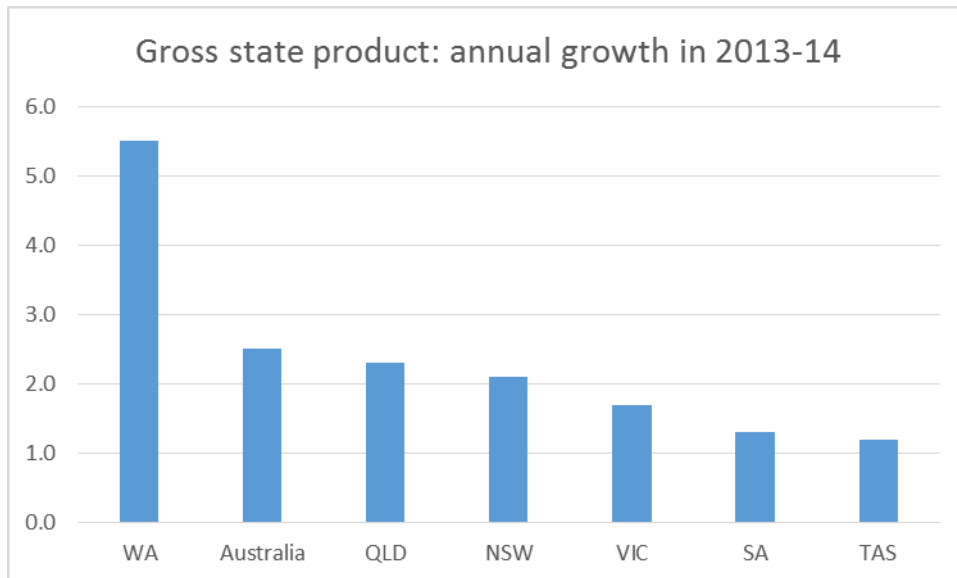
Victoria's 11 public holidays are currently in line with other Australian States and Territories, which range from 10 to 12. An increase of two new full day public holidays would place Victoria as the undisputed stand out for uncompetitive employment restrictions. This comes at a time when the Victorian Government is also holding inquiries into a new portable long service leave scheme, which has the potential, if implemented, to significantly increase the cost of employing people in Victoria.

Implementing two new public holidays will be hugely detrimental to a Victorian economy that is currently performing poorly in comparison to other Australian States and Territories. Victoria's annual Gross State Product (GSP) has shown a declining trend from 2003-4 to 2013-14, with a consistent decline from 2011-12 to 2013-14. Furthermore, since the 2005-6 financial year, Victoria has consistently had annual GSP averages lower than the national average.

Since the 2007-8 Global Financial Crisis, Victoria has had a six year (2008-9 to 2013-14) annual GSP average of only 1.9%. This slow growth is in stark contrast to Victoria's six year (2001-2 to 2006-7) annual GSP average of 3.6% prior to the 2007-8 Global Financial Crisis.

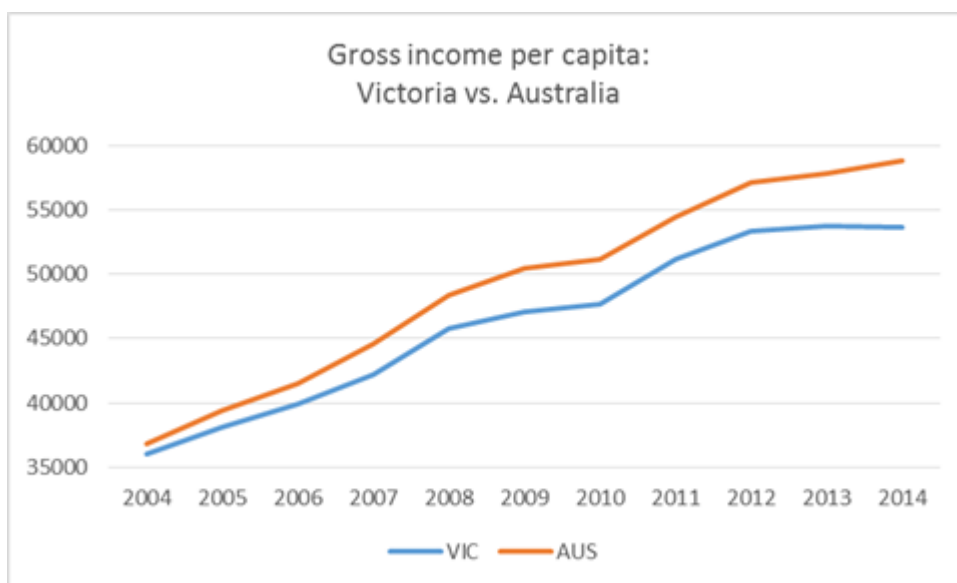


Source: ABS, Australian National Accounts: National Income, Expenditure and Product cat. no. 5206.0, ABS, Australian National Accounts: State Accounts cat. no. 5220.0



Source: ABS, Australian National Accounts: State Accounts cat. no. 5220.0

There is a growing widening gap between the gross income per capita of Victoria and Australia in the past 10 years. In addition, when taking state population growth into consideration, Victoria recorded a negative per capita growth of -0.2% in 2013-14:



Source: ABS, Australian National Accounts: State Accounts cat. no. 5220.0



Source: ABS, Australian National Accounts: State Accounts cat. no. 5220.0

The above evidence supports VACC's position that Victoria's current economic climate is not conducive to the Victorian Government's proposal to include two further public holidays. Victoria's gross product per person has produced negative results over 2013-14, a poor result compared to other States. The weak economic position in Victoria suggests the cost associated with two additional public holidays will add further costs to business and significantly reduce business confidence.

Impact on Small Business

VACC is concerned that the impact of two new permanent public holidays will be particularly detrimental to our small business members. The RIS estimates a net impact on small business from reduced economic activity and increased wages of \$248 – 306 million per annum.⁶ Wage costs in particular form a greater proportion of the operating costs for small businesses and public holiday penalty rates and therefore disproportionately affect their profitability. Small businesses lack the resources, negotiating power and profit margins of medium to large scale businesses to pass on these additional costs to consumers.

Since 2010, increases to the national minimum wage amount to a combined increase of 15.3%. The Nielsen telephone survey of VACC membership for the 2014-15 Annual Wage Review found that 'profitability' and 'cash flow' are the two areas that have been most negatively affected by the 3% increase in modern award minimum wage rates in 2014. Furthermore, 27% of businesses reported a decrease in cash flow levels as a direct result of the 3% increase in wages.

Accumulative increases in the national minimum wage have harmed business profitability and productivity at a time of slow economic growth. The Nielsen survey found that 35% of businesses experienced a decrease in the level of overall profitability in their business. Compounding these effects even further, 25% of businesses reported that their selling price of products and services have increased as a result of the wage increase.

VACC submits that the current poor economic climate in Victoria and nationally means that the Victorian Government's proposal for two additional public holidays could not have come at a worse time for small business.

⁶ Regulatory Impact Statement pp24-25.

Impact on Regional Victoria

Although the RIS outlines some possible benefits to regional Victoria from the proposed public holiday on the Friday before the AFL Grand Final, it nevertheless acknowledges that 'the net impact of these effects is uncertain.'⁷ VACC recognises that increased regional tourism might benefit some regional communities, however this is not expected to flow through to the automotive industry. VACC considers that the cost of this public holiday on regional trade in the automotive industry, through penalty rates and reduced economic activity, more than outweighs any perceived regional benefit to our industry.

According to the ABS 2011 Census, almost a quarter (23%) of Victorian automotive employees reside in regional areas of Victoria.⁸ It is reasonable to therefore presume, and this is supported by anecdotal evidence, that there exists a significant level of automotive business activity in those regional areas. This illustrates the potential degree of impact on the economic activity of the automotive industry in Victoria's regional areas if the Government implements two additional public holidays.

⁷ Regulatory Impact Statement p16.

⁸ Ballarat, Bendigo, Geelong, Hume, Latrobe – Gippsland, North West, Shepparton, Warrnambool and South West.

Impact on Tourism

VACC is sceptical of the tourism figures quoted by the RIS in favour of the additional public holidays. Tourism Victoria's estimate of the tourism benefit from a new long weekend ranges by \$34 million, from \$17 - 51 million. In addition, the RIS quotes alternative research placing the benefits of a complementary sports-based event as ranging between \$7 - 49 million, a difference of \$42 million.

VACC submits that the estimates relied upon in the RIS are too wide ranging to be relied upon for an accurate assessment of tourism and related expenditure benefits to the Victorian economy.

VACC is concerned that the Friday before the AFL Grand Final public holiday will pose a substantial benefit to the economies of other States and Territories, as Victorians look to travel elsewhere over the new long weekend. This risks changing the spirit of the AFL Grand Final day, wherein friends and families have traditionally gathered to watch the game and enjoy a BBQ lunch.