



THE MCKELL INSTITUTE

Who loses when penalty rates are cut?

**The economic impact of penalty rate cuts
in Australia's retail and hospitality industries**

APRIL 2015



Background

As the debate about penalty rates gathers traction at federal level, the McKell Institute has decided to undertake an economic analysis into the impact of penalty rate reform on regional and rural Australia.

This research builds on existing research conducted by The McKell Institute into the economic impacts of penalty rate reform on regional and rural areas of NSW. This research seeks to analyse the impacts on an electorate by electorate basis.

The authors of this paper have utilised a range of publicly available information and our own analysis in compiling this paper.

About the McKell Institute

The McKell Institute is an independent, not-for-profit, public policy institute dedicated to developing practical policy ideas and contributing to public debate. The McKell Institute takes its name from New South Wales' wartime Premier and Governor-General of Australia, William McKell.

William McKell made a powerful contribution to both New South Wales and Australian society through significant social, economic and environmental reforms

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About the authors

Equity Economics

Equity Economics is an economic and social policy consultancy firm based in Sydney. Equity Economics provides research, analysis and policy advice to a range of clients including major not for profit organisations, peak bodies, and corporates.

Equity Economics draws on the skills of experienced economist and policy advisers with significant experience in the Federal Treasury and government. Particular areas of expertise include microeconomic reform, health and social policy.

UMR Strategic Research

UMR Strategic Research is a professional quantitative and qualitative research agency. UMR Strategic Research has provided significant insights, advice and campaign management to decision-makers who have brought about major change in Australia and New Zealand for Governments and business.

UMR Strategic Research is a full service opinion research, issues management and campaign company, based in Australia and New Zealand, working across the Asia Pacific region. They specialise in political research and campaigns, corporate reputation, personal image management, issues management and social marketing.

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Foreword

It is with great pleasure that we introduce the McKell Institute's study into the importance of penalty rates to Australian workers.

In this latest discussion paper, the McKell Institute briefly overviews the history of penalty rates in Australia and gives a snapshot of the contemporary debate on the topic. Then, focusing on the retail and hospitality sectors, it looks at proposals aimed at reducing or removing penalty rates all together.

As an important addition to the public debate on the subject, it examines and quantifies the disproportionate impact that rural and regional centres will endure as a result of these changes.

The report accurately identifies the extent that businesses owned outside those regional centres (generally in Sydney and Melbourne) will profit at the expense of regional workers. More important are the second line impacts that will be felt when the employee has less money to spend locally, leading to decreased revenue and increasing the divide between the city and the country.

While we recognise that businesses in the bush face increasing challenges, they will not create a pathway to ongoing profitability by cutting penalties and the decent treatment of the very people who work to make them successful.

We hope that the findings of this report reach its intended audience and that its messages are understood. Furthermore, we hope that those in the Federal Government pushing for changes in this sector pause to consider the unintended consequences of their proposals, not only on the workers and their families but also on the towns and cities of regional Australia.

Finally, we hope that this research is of use to the Productivity Commission as it conducts its review into Australia's industrial relations system.



The Hon John Watkins
CHAIR,
MCKELL INSTITUTE



Sam Crosby
EXECUTIVE DIRECTOR,
MCKELL INSTITUTE

Executive summary

Penalty rates have long protected the Australian weekend. For over a hundred years they have incentivized irregular hours of work and compensated working families for the time apart.

Now there are increasing calls from employer groups and parts of the Federal Government to cut back penalty rates in an effort to increase the profitability of companies and the nation's level of productivity.

While the effects of such a change would be widely and deeply felt throughout the nation, in homes and around kitchen tables of wage earning employees, there will be a disproportionate impact on the towns and local economies in rural and regional Australia. In the country, where Census data says that retail workers already earn on average 7% year less than their city counterparts, they'll end up facing a disproportionate burden inflicted on them by this potential change.

This discussion paper demonstrates the impact a reduction or a removal of penalty rates in the retail and hospitality industries will have in rural Australia. The retail and hospitality sectors account for some 18% of rural workers. As such, any reform to penalty rates would have a particularly severe impact on regional and rural areas.

In a new analysis by the McKell Institute, it is estimated that retail and hospitality workers in rural Australia would lose between \$370 million and \$1.55 billion each year, depending on the extent of the cut to penalty rates and the level of local ownership of the retail stores.

It is estimated that this will reduce disposable income for spending in regional areas by between \$174.6 million and \$748.3 million. The extent of these impacts vary from region to region, with several individual examples provided in this report to illustrate this point.

In addition, qualitative analysis has been commissioned by the McKell Institute to determine the broader impact that any change in penalty rates is likely to have on those employees that receive them, and the communities in which they live. It is important that we acknowledge that changes to penalty rates are not just negative for existing workers; they can be detrimental to the companies that rely on the wages of local employees to survive.

Overwhelmingly, this analysis found that any reduction in penalty rates was likely to result in a substantial negative impact on both the emotional wellbeing and financial security of workers. In addition, reductions were expected to result in a reduction in disposable income, resulting in less money being available for one-off or discretionary spending. Most respondents indicated that they would need to reduce their expenditure on items and activities including dining out, social activities in their area, tourism, events, home renovations, extracurricular activities for their children, insurance products, and minor leisure items.

Penalty rates

– the story so far

Penalty rates have been a feature of the Australian industrial relations system for over 100 years – having been established just after Federation in 1909, in the Commonwealth Conciliation and Arbitration Commission.

(1909), Justice Higgins awarded penalty payments valued at time-and-a-half of ordinary payments be made for work on the seventh day in any week, an official holiday and ‘all time of work done in excess of the ordinary shift during each day of twenty hours’. Higgins awarded the penalty rates, firstly as compensation to employees being made to work at inconvenient times, but secondly to act as a deterrent against ‘long or abnormal hours being used by employers’.

The rationale for penalty rates; that employees should be appropriately compensated for working long hours at inconvenient and unsociable hours, was reaffirmed almost forty years later by the Commonwealth Conciliation and Arbitration Commission. It decided that Saturday work should be paid at 125% of the base rate, and people working on Sundays should receive double-pay. Shortly afterwards in 1950, the NSW Industrial Relations Commission noted that ‘employers must compensate employees for the disturbance to family and social life and religious observance that weekend work brings’.

More recently, the new modern award objective under the Fair Work Amendment Act (2013), introduced by the former Labor Government which took effect in January 2014, places a requirement on the Fair Work Commission to consider the need for extra remuneration for people employed during ‘overtime; unsocial, irregular or unpredictable hours; working on weekends or public holidays; or working shifts’, when making sure that these modern awards provide a just safety net, ultimately providing safeguard for penalty rates.

While not a uniquely-Australian privilege, they have stood the test of time reflecting the egalitarian nature of the Australian psyche. Over the last century they have attracted bi-partisan support, with some of this remaining in place today among the current conservative Government. Prime Minister Abbott has conceded that “penalty rates are very important to people...if you’re a low paid worker one of the things that you often love to do is work late nights, weekends, because it does substantially increase your income”. Employment Minister Eric Abetz has told Australians that “we have a system that has worked relatively well over many years now, and I don’t want to put the Parliament in the space of the Fair Work Commission”.

Nevertheless, while the Government appears to have temporarily ruled out any changes following the Productivity Commission’s inquiry into Australia’s workplace laws, significant uncertainty remains as to whether the Coalition will take a new agenda of industrial relations reform to the next election.



The current political climate

The Productivity Commission has recently begun an inquiry, commissioned by the Abbott Government, into Australia's industrial relations system and workplace legislation. This review will focus on issues including, but not limited to, penalty rates, the minimum wage and unfair dismissal.

Productivity Commission chairman Peter Harris has called for submissions that are heavily grounded in facts and research, assuring stakeholders that "the commission is open-minded, and our approach will be evidence based and impartial".

In previous submissions to the Fair Work Commission, the current Federal Government has indicated a strong preference for a weakening in the current penalty rates framework. In those submissions, the Federal Government asked the Commission to evaluate whether penalty rates were "appropriate in a particular industry", in what can likely be interpreted as a specific reference to the hospitality and retail industries. Previous comments by the Coalition MPs regarding penalty rates have largely focused on these two sectors.

Since the election of the Liberal-National Coalition Government in 2013 there has been an increase in

the level of activity by employer groups advocating for a reduction or removal of penalty rates.

Elements of the business lobby are also agitating to reduce or abolish penalty rates.

The Australian Retailers Association's chief executive Russell Zimmermann stated that "you should be able to work any five days out of a seven day week, and have that constitute a working week. We should not be talking about unsociable hours any longer".

The director of economics and industry policy at the Australian Chamber of Commerce and Industry, John Osborn, has argued that "we need to make sure that penalty rates are realistic and don't make businesses unviable," and that "we must honestly look at all the workplace reform options, including greater flexibility when it comes to working what have traditionally been called unsocial hours."



In 2013, the full bench of the Fair Work Commission rejected a case by the employer association for the restaurant and catering sector to reduce penalty rates in five awards across the hospitality and retail sectors. This heightened concerns of employees and their unions that this pillar of the industrial relations system was under attack. Then on appeal, in May 2014 the Fair Work Commission overturned its previous ruling in the hospitality award and reduced penalty rates for casual employees for Sunday shifts by 25%.

That decision was tellingly described by Eric Abetz as being “ground breaking,” while the National Retail Association chief executive Trevor Evans described the outcome as “exciting”.

The Coalition and Labor are polarised on this issue. The Liberal argument is that such reforms will ‘liberate’ employers from paying weekend and overtime rates to their workers. Western-Sydney Backbencher Alex Hawke called for penalty rates to be slashed in order to expedite youth unemployment figures, stating that “if you change penalty rates now, in 6 to 12 months you’d start to see an impact of more small businesses taking on more young people”.

The Federal Labor party and the union movement

remains staunchly opposed to such reforms. Opposition Workplace Relations spokesman Brendan O’Connor has warned that any review of penalty rates reform will be “a Trojan Horse to attack the take home pay of nurses, paramedics, aged care workers and cleaners, who rely on penalty rates to pay the bills.”

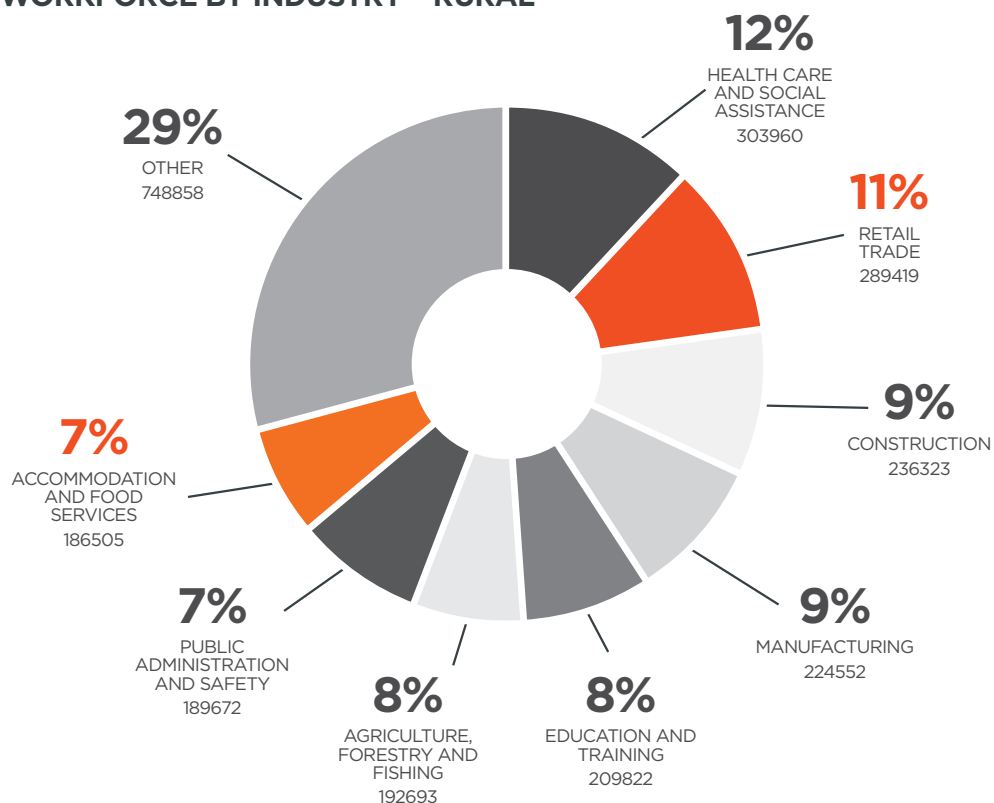
The McKell Institute cautions against any assumption that a reduction in penalty rates will automatically result in an economic improvement across the country, with commensurate improvements in business balance sheets, and subsequently, their capacity to hire. In truth, our analysis has found that reforms to penalty rates will result in a substantial drain from regional and rural economies.

This research is supported by further qualitative analysis commissioned by the McKell Institute in which a series of respondents from regional towns across Australia were asked to outline what they would do differently if penalty rates were reduced. The research considered what areas of expenditure may be cut by workers as they adopt to a lower level of pay, while also considering what impact a reduction in wages would have on their emotional wellbeing and capacity to provide for their household.

The importance of retail and hospitality trade for rural Australia

The retail and hospitality sectors account for 18 percent of workforce in rural Australia. When combined, they employ around half a million people in rural Australia.

2011 WORKFORCE BY INDUSTRY - RURAL

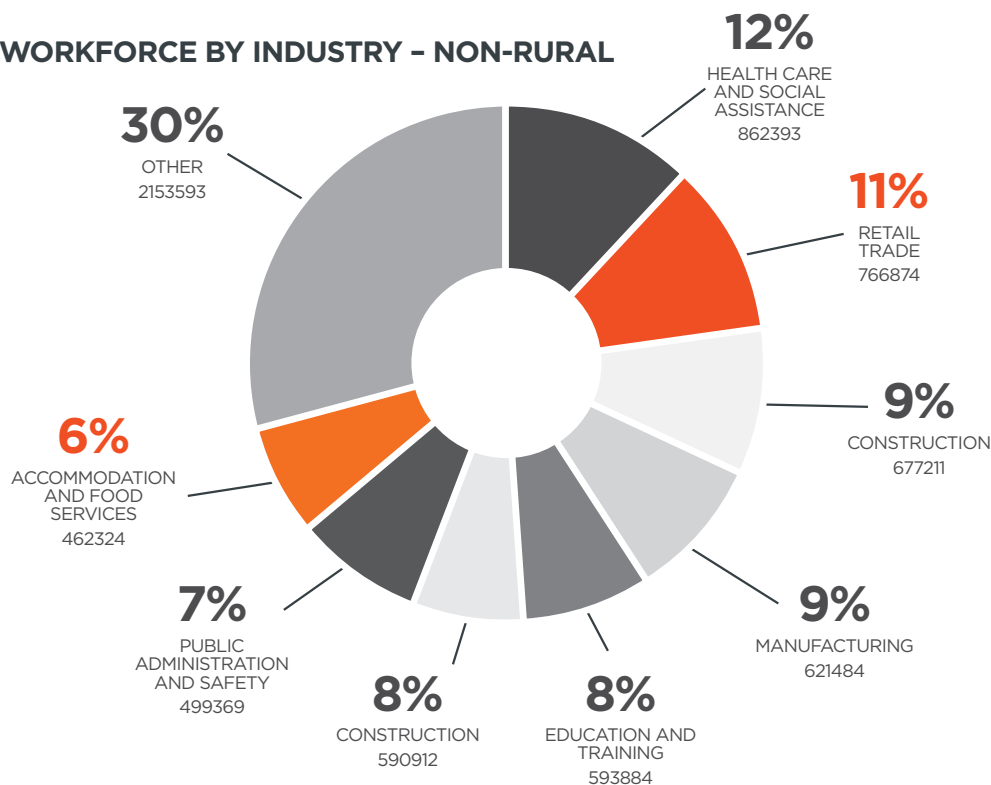


Source: ABS Census of Population & Housing 2011¹

1. In this chart, rural includes those electorates classified as rural by the AEC as well as all the electorates in Tasmania and the Northern Territory.

As a proportion of the workforce, a higher proportion of rural workers are employed in retail and hospitality (18 percent) than in non-rural electorates (17 percent).

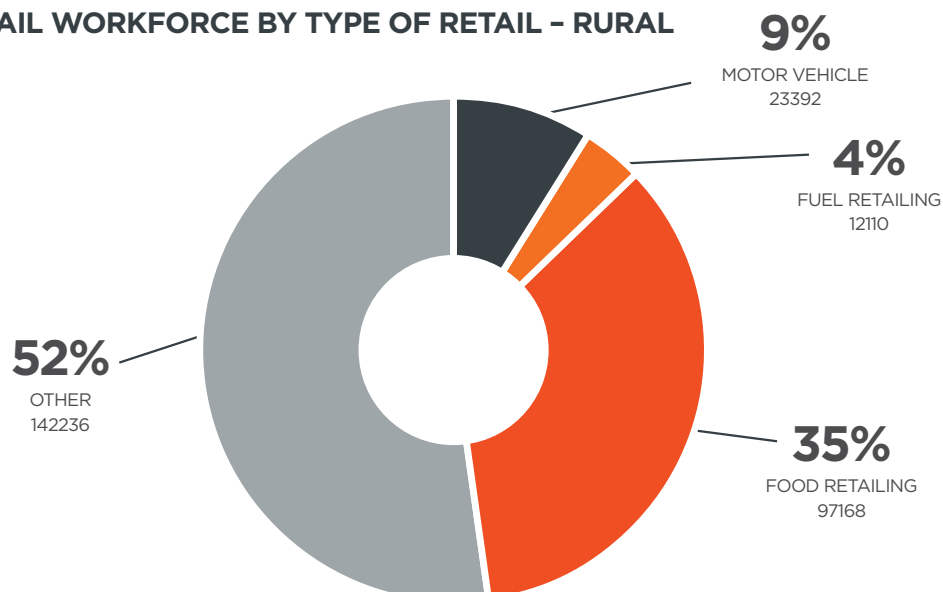
2011 WORKFORCE BY INDUSTRY - NON-RURAL



Source: ABS Census of Population & Housing 2011¹

Within retail trade in Rural Australia, 35 per cent of workers are employed in food retail (e.g. supermarkets and grocery stores); 9 per cent in motor vehicle related retail (e.g. car dealers and vehicle parts retailing), 4 per cent in fuel retailing (e.g. petrol stations) and 52 per cent in other types of retail (including furniture, electrical, goods, clothes, hardware and garden supplies).

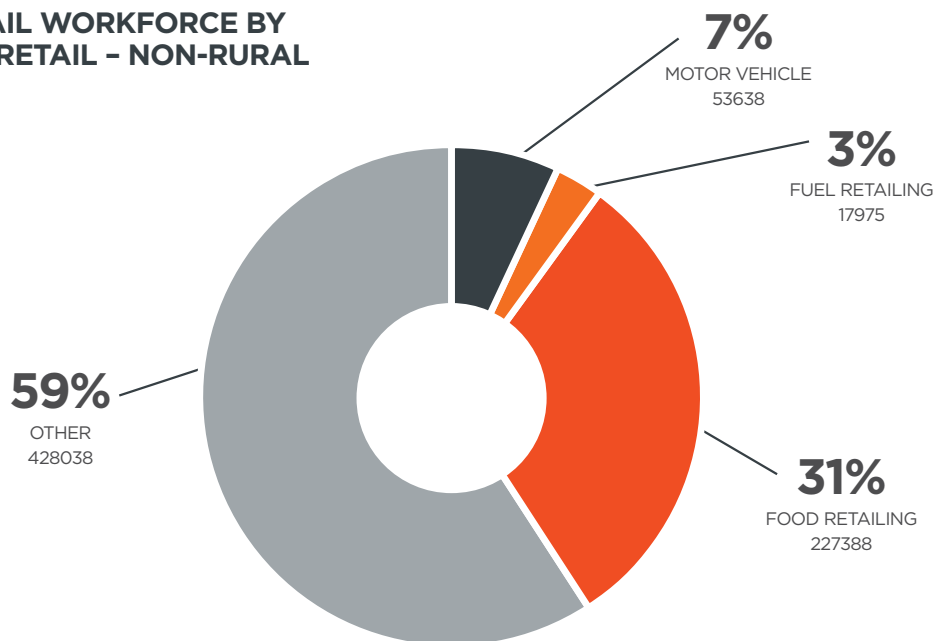
2011 RETAIL WORKFORCE BY TYPE OF RETAIL - RURAL



Source: ABS Census of Population & Housing 2011¹

In comparison with non-rural areas, a significantly higher proportion of rural retail workers are employed in food retail (35 percent compared to 31 per cent) and fuel retail (4 percent compared to 3 percent).

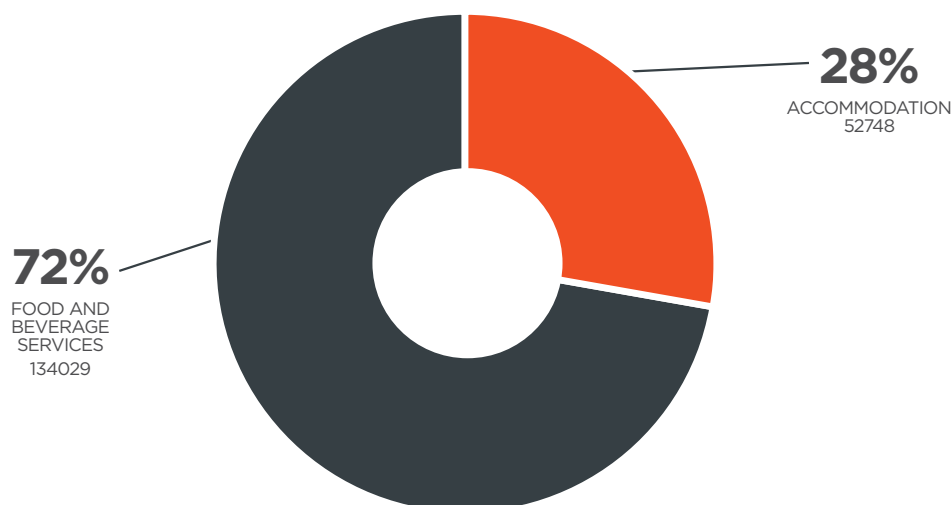
2011 RETAIL WORKFORCE BY TYPE OF RETAIL - NON-RURAL



Source: ABS Census of Population & Housing 2011¹

Within the hospitality sector in rural Australia, 72 per cent of workers are employed in food and beverage (e.g. restaurants and bars) and 28 per cent in accommodation (e.g. hotels and motels).

2011 HOSPITALITY WORKFORCE BY TYPE - RURAL

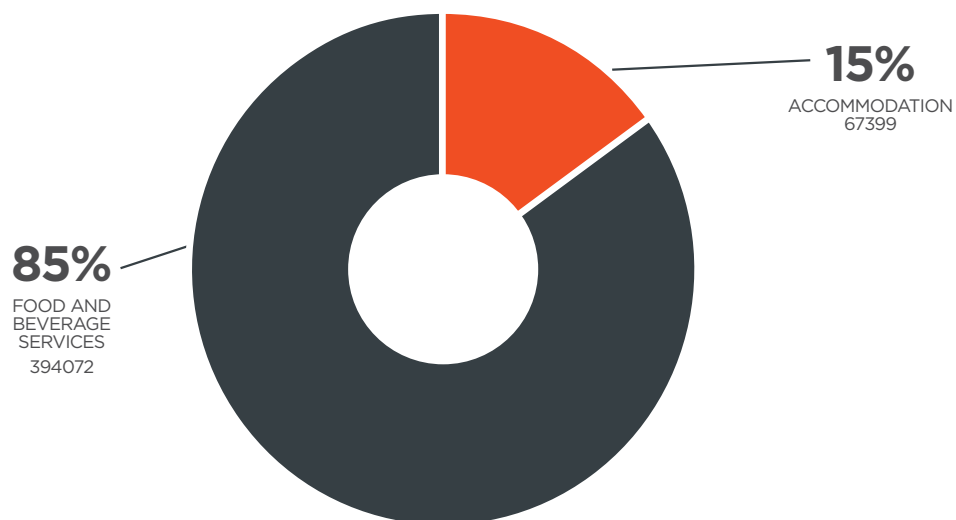


Source: ABS Census of Population & Housing 2011¹



In comparison with non-rural areas, a significantly higher proportion of rural hospitality workers are employed in accommodation (28 percent compared to 15 per cent).

2011 HOSPITALITY WORKFORCE BY TYPE - NON-RURAL



Source: ABS Census of Population & Housing 2011¹

From analysis of the 2011 ABS Census, it can also be estimated that the total income earned by workers in the retail industry in Rural Australia was \$9.1 billion per annum. In 2011, the estimate of average income per worker (including full-time, part-time and casual work) was \$32,200 p.a. This is significantly lower than the average for non-rural areas (in non-rural areas it was \$34,500 – or 7 per cent higher).

The total income earned by workers in the hospitality industry in Rural Australia was \$5.2 billion per annum. In 2011, the estimate average income per worker (including full-time, part-time and casual work) was \$28,700 p.a. This is lower than the average for non-rural areas (in non-rural areas it was \$28,900).

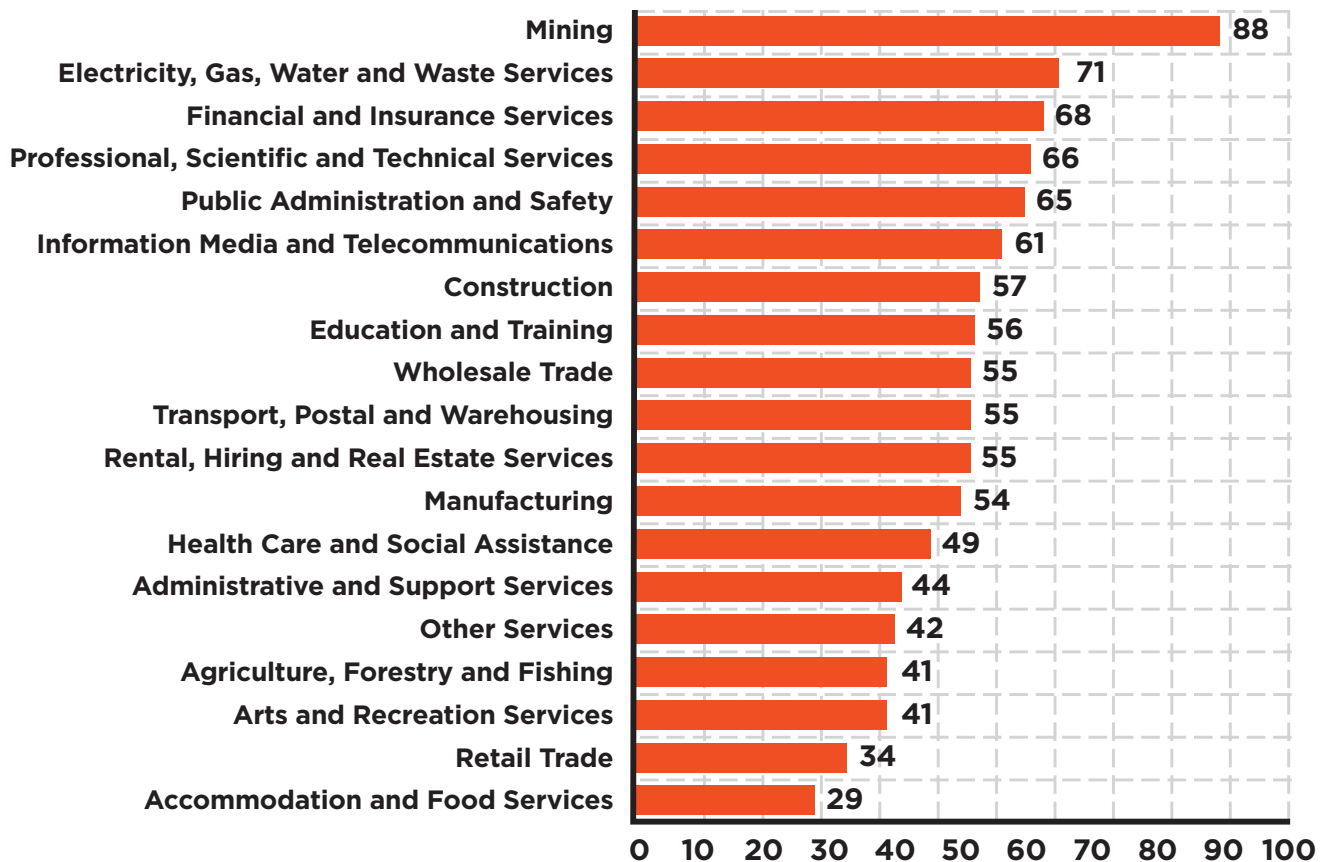
It must also be noted that according to the 2011 ABS Census, the average income earned by

workers in retail trade and hospitality was the lowest of any industry.

Consequently, it is clear that any proposals to lower the income of workers in retail or hospitality – as it would be the case if proposals to reduce or abolish penalty rates were reduced or abolished – should be of great concern not only to employees and unions but also to anyone concerned with the wellbeing of local communities.

In practice, cuts to penalty rates would reduce the income of a group of workers who is already experiencing the lowest income in rural Australia. This would result in a commensurate reduction in the disposable income of those workers, leaving less money available for spending on local goods and services.

2011 ESTIMATED ANNUAL AVERAGE INCOME BY INDUSTRY ('000)



Source: ABS Census of Population & Housing 2011¹

Quantitative analysis of the impacts of reductions in penalty rates

Quantitative analysis of the impacts of reductions in penalty rates



The aim of this study is to estimate the economic impact of potential penalty rate reductions in the retail and hospitality industries in rural Australia. The study estimates:

- ▶ The potential income loss to individual workers; and
- ▶ The secondary effect to local economies as worker's disposable income is reduced.

The second issue is of particular relevance to rural areas. From an economic perspective, the reduction or abolition of penalty rates represents a transfer of income from employees to employers. In the case where business owners live in the area where the business operates, this does not necessarily lead to a decrease in economic activity as levels of income in a region do not change significantly.

However, in cases where business owners do not live locally, the income transfer between workers and employers also means a transfer of income among geographical areas. It means lower levels of disposable income in the area of employment (typically the country) and higher levels of disposable income in the area where the business owner lives (typically the city).

This is clearly the case for the large retail chains. In these cases, the potential reductions or abolition of penalty rates means less disposable income in rural areas and a consequent reduction in local expenditure – ironically, most likely in the retail and hospitality sectors.

Summary of the economic impact – nationally and by state & territory

In summary, the study estimates the following impact on rural Australia nationally:

- A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:
 - ▶ Workers in Rural Australia losing between \$370.7 million p.a. and \$691.5 million p.a.; and
 - ▶ A loss in disposable income of between \$174.6 million p.a. and \$343.5 million p.a. to local economies in Rural Australia.
- B. A full abolition of penalty rates in the retail and hospitality sectors would result in:
 - ▶ Workers in Rural Australia losing between \$929.2 million p.a. and \$1.55 billion p.a.; and
 - ▶ A loss in disposable income of between \$445.6 million p.a. and \$748.3 million p.a. to local economies in Rural Australia.

In **New South Wales** the study estimates that:

- A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:
 - ▶ Workers in Rural NSW losing between \$118.9 million p.a. and \$220.0 million p.a.; and
 - ▶ A loss in disposable income of between \$53.8 million p.a. and \$106.2 million p.a. to local economies in Rural NSW.
- B. A full abolition of penalty rates in the retail and hospitality sectors would result in:
 - ▶ Workers in Rural NSW losing between \$296.8 million p.a. and \$494.9 million p.a.;

and

- ▶ A loss in disposable income of between \$137.7 million p.a. and \$230.6 million p.a. to local economies in Rural NSW.

In **Queensland** the study estimates that:

- A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:
 - ▶ Workers in Rural Queensland losing between \$81.9 million p.a. and \$151.3 million p.a.; and
 - ▶ A loss in disposable income of between \$40.0 million p.a. and 76.4 million p.a. to local economies in Rural Queensland.
- B. A full abolition of penalty rates in the retail and hospitality sectors would result in:
 - ▶ Workers in Rural Queensland losing between \$204.3 million p.a. and \$340.7 million p.a.; and
 - ▶ A loss in disposable income of between \$100.4 million p.a. and \$169.2 million p.a. to local economies in Rural Queensland.

In **South Australia** the study estimates that:

- A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:
 - ▶ Workers in Rural South Australia losing between \$34.7 million p.a. and \$66.2 million p.a.; and
 - ▶ A loss in disposable income of between \$18.1 million p.a. and \$36.1 million p.a. to local economies in Rural South Australia.

B. A full abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in Rural South Australia losing between \$88.0 million p.a. and \$146.5 million p.a.; and
- ▶ A loss in disposable income of between \$46.5 million p.a. and \$78.1 million p.a. to local economies in Rural South Australia.

In **Victoria** the study estimates that:

A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in Rural Victoria losing between \$67.0 million p.a. and \$127.6 million p.a.; and
- ▶ A loss in disposable income of between \$33.5 million p.a. and \$68.1 million p.a. to local economies in Rural Victoria.

B. A full abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in Rural Victoria losing between \$169.8 million p.a. and \$282.6 million p.a.; and
- ▶ A loss in disposable income of between \$87.1 million p.a. and \$145.7 million p.a. to local economies in Rural Victoria.

In **Western Australia** the study estimates that:

A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in Rural Western Australia losing between \$26.0 million p.a. and \$48.2 million p.a.; and
- ▶ A loss in disposable income of between \$9.4 million p.a. and \$18.4 million p.a. to local economies in Rural Western Australia.

B. A full abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in Rural Western Australia losing between \$65.0 million p.a. and \$108.3 million p.a.; and

- ▶ A loss in disposable income of between \$23.6 million p.a. and \$40.2 million p.a. to local economies in Rural Western Australia.

In **Tasmania** the study estimates that:

A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in Tasmania losing between \$31.5 million p.a. and \$58.7 million p.a.; and
- ▶ A loss in disposable income of between \$15.0 million p.a. and \$29.4 million p.a. to local economies in Tasmania.

B. A full abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in Tasmania losing between \$78.9 million p.a. and \$131.6 million p.a.; and
- ▶ A loss in disposable income of between \$38.2 million p.a. and \$64.1 million p.a. to local economies in Tasmania.

In the **Northern Territory** the study estimates that:

A. A partial abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in the Northern Territory losing between \$10.7 million p.a. and \$19.5 million p.a.; and
- ▶ A loss in disposable income of between \$4.9 million p.a. and \$9.0 million p.a. to local economies in the Northern Territory;

B. A full abolition of penalty rates in the retail and hospitality sectors would result in:

- ▶ Workers in the Northern Territory losing between \$26.5 million p.a. and \$44.2 million p.a.; and
- ▶ A loss in disposable income of between \$12.0 million p.a. and \$20.3 million p.a. to local economies in the Northern Territory.



Methodology and assumptions used in the quantitative analysis

Methodology and Assumptions used in the quantitative analysis

Data sources

The following data sources have been used as inputs for modeling conducted for the study:

- ▶ Australian Bureau of Statistics (ABS) 2011 Census of Population and Housing – in particular workforce data pertaining to industry, Federal Electorate of residence and income.
- ▶ Australian Bureau of Statistics Counts of Australian Businesses, including Entries and Exits, Jun 2009 to Jun 2013 (ABS Cat No. 8165.0, Table 7). Data from Statistics Counts of Australian Businesses (obtained at the Statistical Area 2 (SA2) ABS geographical classification level) has been reclassified by Federal Electorate.

The study has been conducted using Federal electorates as its geographic unit. It includes the rural electorates as classified by the Australian Electoral Commission plus all Federal electorates in Tasmania and Northern Territory (Bass, Denison, Franklin and Solomon).

Methodology

The following methodology has been used to provide estimates of individual income loss and potential loss of disposable income within local economies:

1. Use 2011 census to estimate retail and hospitality worker numbers in each Federal Electorate.
2. Apply a partial reduction and the full abolition of penalty rates to an individual worker. Assume 19 percent marginal tax rate to estimate disposable income lost.

3. Combine 1 and 2 to estimate total income lost to retail workers in each Federal Electorate.
4. Use ABS Counts of Australian Businesses to estimate number of employees by business size in each Federal electorate.
5. Assume that most of the larger businesses (20+ employees) are not owned locally (as it is clear that most medium to large employers in rural retail outlets are retail chains owned outside of the local area). Vary proportion assumption to obtain high and low estimates.
6. Used 4 and 5 to estimate the number of employees in each electorate who are employed by non-local businesses.
7. Use 6 and 2 to estimate the level of disposable income lost to the local economy.

Assumptions

Two scenarios are considered in this study for both the retail and hospitality sectors:

- ▶ Scenario 1 models the impact of penalty rate cuts assuming trading hours of a large business (for example a major hotel, store or retailer).
- ▶ Scenario 2 models the impact assuming trading hours of a small business (usually a smaller locally owned business)

A marginal tax rate of 19 percent has been used to estimate the average loss in disposable income per worker. This is appropriate given the average income per worker in each scenario falls in the \$18,201 and \$37,000 tax bracket.

The assumptions applied under each of these scenarios for retail and hospitality are detailed below.

Assumptions related to the retail sector

Figures relating to the impact of penalty rate reform on the retail sector are based on the General Retail Industry Award.

The base rate contained in the General Retail Industry Award of \$18.52 is assumed (Level 1). This is a conservative assumption given many retail employers would be on a higher level.

The penalty rates (under the General Retail Industry Award) apply as follows:

	Penalty Rates as per the General Retail Award	Partial Reduction in Penalty Rates (Reduction)	Full Reduction in Penalty Rates (Abolition)
WEEKDAYS: AFTER 6PM	25%	0%	0%
SATURDAY	25%	25%	0%
SUNDAY	100%	50%	0%

All other penalties and allowances from the award are left unchanged.

Two scenarios of business types are modeled to reflect different operating hours:

For scenario 1, the opening hours of a smaller chain supermarket based in multiple regional areas is used. The opening hours for this supermarket in regional areas is estimated to be, on average, 6am to 9pm (Monday to Saturday), and 8am to 9pm (Sunday). It is assumed 4 part time employees share the workload.

For scenario 2, the hours for a typical local small retailer are used (such as a small locally-owned convenience store). The opening hours are estimated to be 9.30am to 5.30pm (weekdays), 9.30am to 4.00pm (Saturday) and 10am to 2pm (Sunday). It is assumed 2 part time employees share the workload.

Based on these assumptions and scenarios, the average loss per worker per week in the retail sector is:

	ABOLITION	REDUCTION
SCENARIO 1	\$85.66	\$42.83
SCENARIO 2	\$52.09	\$18.52

Assumptions related to the hospitality sector

Figures relating to the impact of penalty rate reform on the hospitality sector are based on the Restaurant Industry Award.

The base rate contained in the Restaurant Industry Award of \$17.35 is assumed (Food and beverage, Level 1). This is considered a conservative assumption given many hospitality employees would be on a higher level.

The penalty rates (under the Restaurant Industry Award) apply as follows:

	Penalty Rates as per the Restaurant Industry Award	Partial Reduction in Penalty Rates (Reduction)	Full Reduction in Penalty Rates (Abolition)
WEEKDAYS: 10PM - MIDNIGHT	10%	0%	0%
WEEKDAYS: MIDNIGHT - 4AM	15%	10%	0%
SATURDAY	25%	25%	0%
SUNDAY	50%	25%	0%

All other penalties and allowances from the award are left unchanged.

Two scenarios of business types are modeled to reflect different operating hours:

For scenario 1, Jupiters in Townsville is used to provide an example of a major club or hotel in a regional area. The opening hours for Jupiters are 10am to 2am (Monday to Thursday), 10am to 4am (Friday and Saturday) and 10am to 12am (Sunday). It is assumed 4 part time employees share the workload.

For scenario 2, a sample of Gloria Jeans outlets in regional and rural areas was examined as a proxy for cafe hours. The approximate opening hours for such cafes are 7.30am to 6.00pm (Monday, Tuesday, Wednesday and Friday), 7.30am to 9.00pm (Thursday), 7.30am to 5.00pm (Saturday) and 7.30am to 4.30pm (Sunday). It is assumed 2 part time employees share the workload.

Based on these assumptions and scenarios, the average loss per worker per week in the hospitality sector is:

	ABOLITION	REDUCTION
SCENARIO 1	\$34.70	\$17.35
SCENARIO 2	\$59.64	\$19.52



Assumptions pertaining to non-local business owners

Assumptions made regarding business ownership are in the table below. Importantly, it is assumed that all businesses with 200 or more employees are not locally owned.

	SCENARIO 1			SCENARIO 2		
	1-4	5-19	20-199	1-4	5-19	20-199
AVERAGE EMPLOYEES	2.5	12	45	2.5	12	40
% NON-LOCAL OWNERS	0%	15%	80%	0%	10%	75%

Scenario 1 represents the typical patterns of larger businesses, which tend to be owned in metropolitan areas or internationally. Therefore under scenario 1, non-local ownership is assumed to be higher.

Qualitative analysis of the likely impact of changes to penalty rates

Qualitative research was commissioned to explore the effect of reducing penalty rates entitlements for people living in regional towns across Australia.

This report is focused on creating a deeper understanding of how shift workers and those reliant on penalty rates, will have to alter their lifestyles, priorities and current purchasing behaviour in order to manage cuts to their take-home pay.

The research was also intended to explore any flow on effects; the emotional consequences for each individual and the nature and impact on the family/ household unit.

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Key findings from qualitative research

Penalty rates were frequently considered by employees to be fair compensation for inconvenient hours which take away valued time with family and friends.

Research respondents also indicated that penalty rates often make the difference between barely scraping by and being able to purchase those few little extras that make life worth living. For respondents already living relatively simple, low-cost lives, cuts to penalty rates were likely to have a substantial impact on their standard of living. This often meant cutting out all discretionary spending, making do with cheaper and lower quality items, and abandoning all attempts to save money for future needs.

The research also highlighted a risk of serious emotional damage, including an erosion in emotional wellbeing for both the individual and family unit should penalty rates be cut. A reduction in penalty rates was expected to increase tension between partners, result in lengthy periods away from the family, and an inability to afford time out with friends, among other impacts. These were the predicted outcomes if one person or a couple had to take on extra work to sustain the same rate of pay.

Men and women had different emotional reactions to the possibility of changes. Men spoke of feeling emasculated in their reduced ability to provide for their family, while women described feelings of guilt towards not being able to treat their children or possibly taking away their afterschool activities/lessons.

In the face of any reduced pay, respondents described seemingly small changes to their daily habits which actually had big impacts on their ability to cope with stress. These activities are important wind-down tools for many people both during and after a long day at work, and include a broad range of hobbies such as fishing, attending weekend sporting events, shopping, going to the gym and (for some) having an occasional drink.

Respondents see such activities as a key part of their ongoing mental and emotional health. Being unable to save means no longer being able to

aspire to the things they were saving for, which were often seen as essential to their happiness.

Critically, if penalty rates were reduced or eliminated, many respondents admit they would be unlikely to volunteer to work outside of standard working hours. If such a response were widespread, respondents were concerned that this would be likely to cause conflict within the workplace and with employers as staff are forced to rotate or negotiate around the undesirable shifts.

Cumulatively, all these effects would shift work from something that was considered enjoyable at least some of the time, to something they regarded as mere drudgery.

Demographics chosen for analysis

To appropriately capture a broad subsection of demographics that would be impacted by a change in penalty rates, the researchers recruited respondents from a broad range of occupations within the retail and hospitality sector.

The researchers found that the respondents they recruited tended to fall into one of three broad typologies, which can be summarised as follows:

► **PRESSURED**

- Where there is infrequent work or only a narrow difference between partners' respective income.
- There are usually dependant children in the household, frequently more than one.
- If the worker does not have a strong relationship with their employer and is frequently overlooked for lucrative shifts.

► **DISTRACTED**

- When shift work is not the sole focus or sole source of income.
- There are usually no financially dependant children in this situation.

► **COMFORTABLE**

- Where the primary respondent is not the main bread winner, and the main bread winner earns enough to provide for the entire household.
- Alternatively, this group may contain respondents that have very limited financial responsibility (e.g. a younger worker with no children and/or shared budgeting with a partner).
- In this situation, not working at all is an option, so a reduction in penalty rates may well result in the respondent leaving work and focusing on other options, such as raising a child.

Respondents were chosen from around the country with a particular focus on regional and remote areas. The respondents were then presented with two hypothetical scenarios: one in which penalty rates were reduced marginally, and another in which they were removed altogether. In both situations, respondents were asked to outline how they felt the change would impact their quality of life and their broader spending habits.

How a reduction in penalty rates impacted on broader spending habits

Changes to penalty rates are likely to have significant impacts on spending, and much of this impact is likely to be felt locally.

Faced with reduced income, respondents generally felt that they would do a combination of the following:

- Work longer hours
- Reduce ongoing spending when possible
- Spend less on discretionary items
- Reduce or cease saving, especially for one off items

Reductions to ongoing spending included choices such as getting rid of pay TV, prepay mobiles or landlines, downgrading internet plans or doing less in the way of maintenance on vehicles and the house.

This could also mean cancelling children's dance or music lessons, or not allowing them to take part in sports. Such activities tended to be with local providers, meaning that cancelling them would have a notable impact on the local economy.

Reductions to discretionary spending generally fell into two categories. Respondents said that they would:

- ▶ Stop buying certain items, or at least buy them less often. This included small things like a coffee on the way to work, and larger items like going out for dinner or getting takeaways. Many of these were currently bought from local providers.
- ▶ Buying lower quality versions of the same item (e.g. house brands of foods, or no longer buying ethically produced versions of products). The local impacts of this are less clear.

Reduced saving either means doing without certain items, or waiting longer to get them. The items concerned included holidays, buying new vehicles and house renovations, amongst others. Some of this spending would be local, while other parts of it would be spent elsewhere.

How a reduction in penalty rates impacted on quality of life

Respondents generally indicated that they viewed penalty rates as fair compensation for having to take time away from their family and friends. They are considered a basic premium for being at work during times when other people get to relax or spend time together.

For families with kids and a partner, the weekends may be the only time they get to spend together so penalty rates are treated as appropriate recompense.

For young couples or workers with less responsibility, penalty rates are viewed as more of an incentive to volunteer for these non-standard times. Even though they may miss out on opportunities to socialise with their friends or partners, the pay rates are seen to be worth it. However, for many permanent workers, working on a Sunday or public holiday is not voluntary, but rather often compulsory. The penalty rates incurred working on these national days of rest are some recompense for being forced to miss out on being with family and friends.

There was a notable difference between the reactions of male and female parents when we spoke to them about the impact of both working non-standard hours, and the feelings that they associate with the pressure of providing for their family at times when their wages have been lower than normal.

Generally, parents described feelings of guilt and embarrassment towards not being able to afford toys or higher quality food for their kids' lunchboxes. Men specifically spoke about feeling powerless or emasculated, while women described feeling guilty for time spent away from their children. Those without dependant family members also described feeling pressure and despair at not being able to afford to treat themselves as they just scraped by paying their bills.

Respondents were asked the following question, with some of the answers provided below: "If penalty rates were removed what impact would that have on you and your family?"

THE IMPACT OF PENALTY RATE CUTS TO FAMILIES

Not happy

Inconvenient

"I don't think we could afford it at the moment. We would have nothing to look forward to and nothing on the calendar to count down to."

"I couldn't have my hobby and everybody needs a hobby or an outlet that is not work. Something you enjoy that is not a chore."

Frustrating

Embarrassing

Not very enjoyable

"You would feel less capable as a parent, less capable as a partner about being able to support your family."

"It's not just the money but the social aspect because discretionary pay is what you do with the rest of your life."

A personal affront

Depressing

A failure

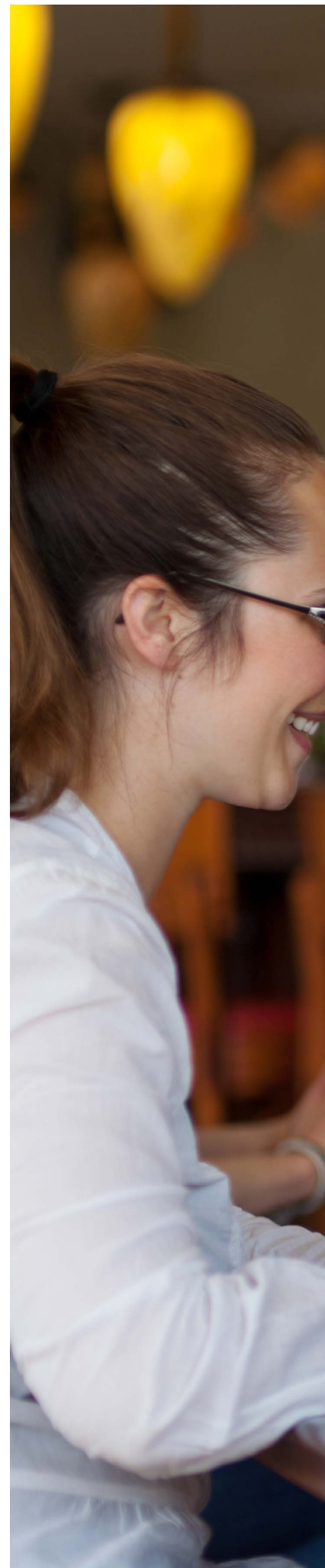
"Your mental health starts to degrade, you stop communicating, talk less and it has very tangible effects on your relationship."

"I like to order pizza on my day off, but if I couldn't then there is that pleasure gone. Your pleasure is being taken away from you."

The presence of children affected both the finances and the focus of the adults within the household dramatically. Those with dependent children were the most likely to be struggling financially and logistically as they tried to work around multiple schedules while providing basic necessities for the house.

In the most extreme example of this study, a couple with both partners working in shift work positions and having young children, rarely get to spend time together as a family. This is exacerbated by the fact that the children are young (all under 5yrs) and have early or set meal times and daytime schedules. With both parents alternating between working days and nights, across all seven days of the week, means that only one parent gets to see the children at a time, and the couple sees each other in a cross-over hour or two in the evening as one comes home and the other goes out to work. Any reduction in penalty rates is likely to have a substantial impact on quality of life for this family and other households in similar circumstances, especially if it meant one or both partners had to work longer hours to make up for the shortfall.

Respondents were also asked about job and wage security. Most respondents insisted that job security in shift work was more a myth than reality. There are many competing forces; the cost of experienced workers, the number of staff needed at any given time and the quality of the relationship which is maintained with the store manager.





The accessibility of both the retail and hospitality industries makes the work simultaneously convenient and unreliable. While many respondents felt confident that they would be able to find alternative work if they were no longer required, there was also a sense of apprehension around whether the amount of hours they receive will be enough to sustain themselves financially during each rostered period. A recent study by the University of South Australia predicted that as many as 48% of weekend and shift workers would not continue to work nights or weekends if penalty rates were removed.²

In addition, most respondents were concerned that rostering issues tended to build a sense of competition between the workers, particularly in larger stores where there is more room for favouritism or simply more workers to spread the shifts across. Even those who feel confident talking to and negotiating hours with their employer know that their company may not be in a position to give all of their workers the shifts that they want.

The concept of limited job security also extends to workers feeling like they are unable to secure long term financial commitments like having a car loan, having a mortgage or even being recognised by a financial institution as being suitable for an application in the first place.

While shift work rates are perceived to pay higher than those on salary packages, many respondents were conscious that a lack of superannuation and other benefits like annual leave or sick leave already puts them at a disadvantage. Respondents were concerned that cuts to penalty rates would further entrench that disadvantage.

For respondents that were in a more financially vulnerable position, lifestyles tended to be primarily focused on working first before seeing if there is appropriate leverage for time off. There was a more defined need to work when there are no allowances for annual or personal leave.

For those in more privileged situations, where they are not required to work in order to pay important bills, the lifestyle and happiness of the family unit

comes first. They are willing and able to turn down the odd shift over the weekend if it means spending quality time with all of their family. This scenario does not exist for the more financially vulnerable, who work when they are required to work, or whenever they can get shifts. For these workers, work takes top priority while lifestyle and health comes second.

Some respondents outlined that working unusually late hours or early morning starts; particularly those which require sleep during daylight hours, places a significant burden physically and emotionally on those who sustain this work over time. Many described feeling depressed and drained from unnatural sleep cycles, in addition to not being able to socialise when others are normally available.

Although these respondents had a clear desire to work more sociable hours in order to improve their health and mental wellbeing, many were simply not in a position to dictate when they work. When the extra money or a second income is crucial to the household, workers are then in a position which puts their health in direct conflict with their ability to provide for themselves and for others. Reductions in wages associated with working these hours would undoubtedly worsen the health and wellbeing of those employees.

The two scenarios presented to respondents

The following tables were shown to each hospitality worker separately. The current rate reflects the Hospitality Industry (General) Award 2010 for a General Level 1 Food and beverage attendant grade 1 (e.g. a waiter). Scenario A represents a situation in which evening rates were removed, Saturday rates were standardised and Sunday rates were halved. Scenario B represents a scenario in which penalty rates are abolished altogether.

2. Edwards, V. "Survey predicts exodus from weekend, shift work if penalty rates cut," The Australian, 10 Nov 2014.

The following table shows the impact of both scenarios on a hospitality employee whose ordinary pay is \$17.35 per hour.

TIME PERIOD	CURRENT	SCENARIO A	SCENARIO B
STANDARD HOURLY WAGE	\$17.35	\$17.35	\$17.35
7PM-MIDNIGHT (WEEKDAYS)	\$19.32	\$17.35	\$17.35
MIDNIGHT-7AM (WEEKDAYS)	\$20.30	\$17.35	\$17.35
SATURDAY	\$21.69	\$17.35	\$17.35
SUNDAY	\$30.37	\$26.02	\$17.35

The following table shows the impact of both scenarios on a retail employee whose ordinary pay is \$18.52 per hour.

TIME PERIOD	CURRENT	ALTERNATE A	ALTERNATE B
STANDARD HOURLY WAGE	\$18.52	\$18.52	\$18.52
WORK AFTER 6PM (WEEKDAYS)	\$23.15	\$18.52	\$18.52
SUNDAY	\$37.05	\$27.38	\$18.52

Impact of a partial reduction in penalty rates (scenario A)

In this scenario, respondents were asked how they would respond to a scenario in which evening rates were removed and Sunday rates were halved. The results are split between those respondents that were employed in hospitality and those that were employed in retail.

HOSPITALITY

Most respondents felt that this change would cause notable differences in the way they had to organise their lives and their spending patterns. Penalty rates are often viewed as a 'cushion' which provides a safety net for saving while also allowing people to enjoy a modest amount of leisure time more freely.

In terms of the impact that such a change would mean to each respondent's individual income levels, Scenario A was estimated to cost respondents anywhere in the range of \$50-\$100 per week in lost wages. However, it should be noted that hospitality workers seemed to be the least clear about what their hourly rates and penalty rates were in the first place. In some cases, workers were not even sure whether they were entitled to penalty rates at all, as verbal or employment agreements may not make any reference or distinction across all possible hours an employee may be required to work.

Nevertheless, respondents were of the clear view that over the course of a year, this could have a notable effect on the quality of life for the working individual. Penalty rates become essential during slower times of the year when hours are cut back and less work may be available overall.

In that sense, penalty rates were an important financial stabilizer for workers already having to balance the often insecure and variable nature of work in the hospitality industry.

There would also be a substantial emotional cost associated with a reduction in penalty rates under Scenario A.

For families in particular, respondents explained that the lifestyle adjustment that would be required under Scenario A would likely present a substantial struggle because the pressures that already exist for families around not spending regular time together would be exacerbated, as one or both parents would need to take on more work to make up for the lost pay. This is a difficult for parents as they feel torn between the need to work and their desire to spend time watching their children grow up.

For singles and those without children, the changes would affect motivation to go and be in the workplace. Many know they would not volunteer to work late at night or on the weekends if they were not being remunerated enough to make up for having to adopt contrary sleep and social schedules.

Some respondents were also concerned that Scenario A could foster a negative and competitive culture within the workplace as Sunday work becomes the only time when penalty rates apply.

Finally, almost all respondents indicated that Scenario A would result in a need to increase their hours in order to offset the reduction in their take home pay.

This casts significant doubt on the claims made by proponents of reform, who have repeatedly called for a reduction in penalty rates as a mechanism for reducing unemployment. If the end result of reform is that workers are simply forced to work longer hours for the same level of pay, then the primary beneficiary of that reform would be business. If a business feels that there is a need to put on additional hours, it would be the existing employees which would largely absorb that burden in order to

maintain a similar level of income. Conversely, if a business feels that there is no need for additional hours, the business owner would simply pocket any saving arising from reduced labour costs.

RETAIL

Most respondents who were employed as retail workers described themselves as having more regular working hours from week to week and across the course of the year. However, although retail hours are more consistent, the length of each shift can be significantly shorter than those who work in hospitality. Instead of working an eight hour shift, an average retail shift might be three or four hours. As such, any reduction in penalty rates was expected to have a dramatic effect, as some use penalty rates to signal whether they will go into work at all.

Under Scenario A, respondents expected to experience a loss of income in the range of \$20 - \$80 per week.

When presented with Scenario A, respondents said that they would possess a creeping sense of anxiety about having less money in the budget. Many talked about initially cutting the grocery bill by downgrading the brands they bought, however this caused many parents to feel troubled that they had gotten to the point where they couldn't afford good quality groceries for their children.

Some respondents talked about not wanting to go to work or be at work during more social times, like on the weekends. Those who indicated that they would be to likely leave the workforce in the immediate to short term future were generally older parents. Although they often had a significant amount of experience in their chosen field, they felt their time and energy would be better spent with their families.

However, there were some who felt that they were not in a position to leave the workforce because they could not afford to lose that income. They also believed that reducing penalty rates to zero would have a negative effect on workplace culture. Respondents felt that because workers

would be less inclined to work non-standard hours, there would be competition to secure the more advantageous shifts, and if no one was willing or volunteered to work during these times, management might implement a forced rotation.

If this happened, certain individuals, like those with kids may lose out even more as they potentially face being let go if they were unable to work and no other employee was available to cover their shift.

Impact of a full abolition of penalty rates (Scenario B)

In this scenario, respondents were asked how they would respond to a scenario in which evening rates and weekend rates were removed entirely. The results are split between those respondents that were employed in hospitality and those that were employed in retail.

HOSPITALITY

If Scenario B were implemented, most respondents felt that there would be serious long term financial and emotional effects for themselves and for their entire household.

Those with families reacted the most strongly to this pay structure. They believed it would significantly impact their ability to provide basic items and experiences for their children.

In terms of the impact that such a change would mean to each respondent's individual income levels, Scenario B was estimated to cost respondents anywhere upwards of \$80 per week. A loss of \$80 per week could represent an entire household food budget or weekly lessons, toys and treats for the kids. Having to sustain this loss over the course of six months to a year would mean a permanent reduction in quality of life.

For the majority of respondents, the complete abolition of penalty rates would force those household to cut out most of their leisure expenses and cut down on a lot of their ongoing expenses in order to survive.

Such a reduction would take a significant emotional

toll on those employees. Some reacted with anger and/or despair as Scenario B would mean that they are simply unable to afford any leisure items at all. It had the potential to cause some to get rid of crucial items like their mobile phone or their car, while also forcing them to abandon any social outings.

There were also feelings of despondency and frustration with the realisation that years of professional training received (e.g. as a chef) may not result in wages higher than any other blue collar work which required less years of qualifications.

Many respondents spoke of the inherent difficulties associated with the working late nights, early mornings and working across the weekends and through public holidays. In addition to this, workplace culture is often focused around high intensity, high stress work with rigid hierarchical structures which makes winding down, hobbies and leisure activities crucial to long term wellbeing. Without the inclusion of penalty rates, some respondents felt that the work itself would not be rewarding enough to continue.

RETAIL

Many respondents found it easy to conceptualise what their quality of life would be like under Scenario B because they had previously experienced temporary periods in which their household had to cope with managing a budget with similar rates of pay. To these respondents, the thought of having to face a similarly reduced income over a sustained period of time, or even indefinitely, caused significant concern and distress.

If Scenario B came into effect, most households felt that they would need to immediately cut almost all comfort and leisure items from the budget. This would mean making a number of deliberate changes to necessity items like downgrading the quality of groceries, selling off assets like the household car, and relying more on the grandparents for financial support and to look after the kids while the parents took on more work. In some instances, even these changes might not be enough to maintain even a modest standard of living.

In dollar values, Scenario B was expected to reduce respondent income by anywhere in the range of \$40 - \$100 per week.

If there was limited opportunity to make up extra hours, most families felt this change would result in severe cutbacks for the household. It would mean no eating out, no impulsive purchases (e.g. spontaneous meals out) and downgrading food brands to the cheapest possible options. Saving money for the household would mean cutting back on things like weekly sport or entertainment events or stopping the kids from going to lessons (e.g. swimming, dancing) on a regular basis.

In circumstances where the household can't afford to prioritise saving, it would mean living hand to mouth, with no opportunity to create a financial safety net for unplanned emergencies.

Scenario B created a substantial level of fear within the household regarding their capacity to keep their head above water financially. Without the ability to save money, parents worry about their kids getting sick and not being able to cover the costs, or having great difficulties doing so. It also means that if anything were to happen to an appliance, the car or other things within the household, it would be a struggle to find the money for any maintenance or repair costs.

Quality of life was across the board expected to decrease. This would cause feelings of depression, failure and resentment as leisure activities diminish. Parents and workers talk about the satisfaction they get from being able to enjoy the smaller things in life, like the odd drink after work or takeaway when you're too tired to prepare anything. Respondents felt that if those things were taken away, all that would be left is work, with the feeling of not really getting anything of your own in return.

There were two main reactions that respondents expected to take in response to Scenario B. The first was making a choice to not work at all and withdraw from the workplace and employment all together. The second was to increase hours or take on an additional job in order to supplement any lost income. The former is only a viable option for those families who already have sufficient income from the main breadwinner, whereas the remainder would be forced to pursue the latter.





Individual respondent case studies

UMR Strategic Research conducted a mix of single depth interviews and dyad depth interviews (with couples) in regional towns across every Australian state. Each interview was around one hour and was held at the respondent's place of residence. Interviews were conducted from January 27th to February 6th.

NO.	TYPE	SECTOR	LOCATION	DESCRIPTIVE NAMES*
1.	Dyad	Retail	Darwin	"Pamela & John"
2.	Depth	Hospitality	Darwin	"Abby"
3.	Dyad	Hospitality	Rockhampton	"Peter & Greg"
4.	Depth	Retail	Rockhampton	"Louise"
5.	Dyad	Hospitality	Coffs Harbour	"Ian & Kate"
6.	Depth	Retail	Coffs Harbour	"Kevin"
7.	Dyad	Retail	Bendigo	"Scott & Anna"
8.	Dyad	Hospitality	Bendigo	"Greta & Jeff"
9.	Dyad	Hospitality	Hobart	"Cathy & Ben"
10.	Depth	Retail	Hobart	"Hayley"
11.	Dyad	Hospitality	Adelaide	"Dave"
12.	Depth	Retail	Adelaide	"Stacey & Stephen"
13.	Dyad	Retail	Perth	"Jaq & Steffi"
14.	Depth	Hospitality	Perth	"Madison"

It should be noted that the descriptive names are not the respondent's real names. They are intended as a device to more easily identify the case study being referred to.

For the dyads, the term 'primary respondent' refers to the person who worked in the target sector (i.e. either retail or hospitality).

All primary respondents in the dyads and all respondents in the depth interviews worked at times which ordinarily attract penalty rates at least once a week. Some reported that they did not get penalty rates for evening work (although this was sometimes because they only worked in the evenings and therefore thought of the rate including penalty rates as their standard rate), but in those cases they also worked on weekends at least once every two weeks. Occupations of the second respondent in the dyads varied markedly, and this affected how they responded:

- ▶ Some were in relatively well paid 'career' jobs (e.g. "Stephen" from Case Study 12 was a trainer with a bank).
- ▶ Others were in the same or similar industry to their partner (e.g. "Jaq & Steffi" from Case Study 13 worked for the same company)
- ▶ Some were in a different sector which also attracted penalty rates (e.g. "Anna" from Case Study 7 worked in the health sector)



Impact on likely spending habits of all respondents summarised

These respondents' responses to changes in penalty rates are summarised below.

NAMES	LOCATION	OCCUPATION	WORK ATTRACTING PENALTY RATES	LIKELY CHANGES
Abby	Darwin	Event supervisor	Variety of shifts including evenings & weekends, long hours in busy season	<ul style="list-style-type: none"> ▶ Working longer hours ▶ Getting rid of her car ▶ Getting rid of gym membership ▶ No holidays ▶ Cheaper food, lower branded products in the grocery shop
Pamela & John	Darwin	Retail sales	Occasional weekends	<ul style="list-style-type: none"> ▶ Thinking twice about spending money on clothes ▶ Buying cheaper groceries ▶ Not going on holidays so often ▶ Putting more financial responsibility on the kids to buy things for themselves (i.e. mobile phone and spending money)
Louise	Rockhampton	Night fill	3 shifts a week (8pm-midnight), some Sundays	<ul style="list-style-type: none"> ▶ Buying cheaper brands of food, or less food ▶ Children unable to take weekly classes ▶ Borrowing on credit cards for regular spending
Peter & Greg	Rockhampton	Pub kitchen chef	Evenings, Monday - Sunday	<ul style="list-style-type: none"> ▶ No holidays ▶ No take away meals ▶ Little ability to save ▶ Couldn't afford car repayments ▶ Getting rid of their mobile phone

These respondents' responses to changes in penalty rates are summarised below.

NAMES	LOCATION	OCCUPATION	WORK ATTRACTING PENALTY RATES	LIKELY CHANGES
Kevin	Coffs Harbour	Fine dining chef	Saturdays and Sundays	<ul style="list-style-type: none"> ▶ Not going out as much with the family ▶ Not taking the kids to the movies ▶ Not drinking alcohol ▶ Finding a cheaper place to rent ▶ Getting rid of phone or not using it so much ▶ Not having holidays during the year, as time off is not paid ▶ Not being sick or having to go to work sick ▶ Feeling like he is not capable of providing for his girlfriend and her children
Ian & Kate	Coff's Harbour	Shop assistant	Variable shifts, occasional evenings	<ul style="list-style-type: none"> ▶ Fewer holidays and trips that aren't essential ▶ Not eating out ▶ Minimising mobile usage ▶ Fewer non-necessity purchases and gadget upgrades (e.g. ipad)
Scott & Anna	Bendigo	Pizza chef	Mainly evenings, some weekends & public holidays	<ul style="list-style-type: none"> ▶ No pay TV ▶ Getting rid of second car ▶ Possibly not giving son paid swimming lessons ▶ Anna considers returning to work, meaning son has to go into daycare
Greta & Jeff	Bendigo	Service station worker	Friday to Sunday, mainly evenings	<ul style="list-style-type: none"> ▶ Reduced pay TV & internet ▶ Work longer hours, so less time together as a couple ▶ Possibly stop studying towards her preferred career ▶ Reduce spending on pets ▶ Fewer takeaway meals

These respondents' responses to changes in penalty rates are summarised below.

NAMES	LOCATION	OCCUPATION	WORK ATTRACTING PENALTY RATES	LIKELY CHANGES
Hayley	Launceston	Sous-chef	Tuesday to Saturday evenings, some Sundays	<ul style="list-style-type: none"> ▶ Fewer coffees on way to work ▶ Fewer meals with friends, meaning less of a social life ▶ Fewer presents for relatives / godsons ▶ Less chance to enjoy her hobbies
Cathy & Ben	Launceston	Shop assistant	Sundays, occasional evenings in busy season	<ul style="list-style-type: none"> ▶ Fewer 'little luxuries' (e.g. chocolate biscuits or ice creams for the children) ▶ Not being able to buy son preferred shoe brand ▶ Not buying name-brand products ▶ No longer having occasional takeaways ▶ No longer able to afford big vet bills
Stacey & Stephen	Adelaide	Café chef	Sundays	<ul style="list-style-type: none"> ▶ Saving less, and therefore having less money put aside for unforeseen events. ▶ Putting off significant occasional expenses (renovating or going to visit relatives.) ▶ Fewer 'little luxuries', such as coffees. ▶ Thinking twice about their daughter's dance lessons.

These respondents' responses to changes in penalty rates are summarised below.

NAMES	LOCATION	OCCUPATION	WORK ATTRACTING PENALTY RATES	LIKELY CHANGES
Dave	Adelaide	Shop assistant	Sundays	<ul style="list-style-type: none"> ▶ Finding other work elsewhere (likely to be less reliable) ▶ Not replacing car if it broke down
Madison	Perth	Waitress	Evenings, some Sundays	<ul style="list-style-type: none"> ▶ Less of a social life ▶ No savings in case of unforeseen events ▶ Less opportunity to travel ▶ Seriously consider career change
Jaq & Steffi	Perth	Shop assistant	Evenings, Sundays	<ul style="list-style-type: none"> ▶ No discretionary spending ▶ More difficult to go out with friends ▶ Buy house brands rather than ethically produced ones ▶ Cancel plans for holidays ▶ No savings for unforeseen events

Conclusion

The McKell Institute's quantitative analysis finds that any reduction in penalty rates is likely to result in a substantial decline in regional and rural economies, as wages and income shift towards the major cities.

Retail and hospitality workers in rural Australia would lose between \$370 million and \$1.55 billion each year, depending on the extent of the cut to penalty rates and the level of local ownership of the retail stores. This in turn would reduce disposable income for spending in regional areas by between \$174.6 million and \$748.3 million.

This would have disastrous impacts on the financial viability of local businesses which rely on the wages of local employees to buy their products and services.

Such a conclusion was supported by the qualitative research undertaken for The McKell Institute by UMR Strategic Research. That research examined the likely impact of a reduction in rates on a number of households across the country, and heard that a reduction in wages was likely to erode each workers capacity to spend on discretionary items, including on local goods and services.

In some cases, workers might simply work additional hours to maintain the same income, which many respondents felt would substantially impact their mental health and emotional wellbeing, which also leading to a reduction in time available to spend with family and friends. If there are no additional hours available, businesses would simply pocket the savings associated with reduced labour costs.

If this were to occur more broadly across the country, a reduction in penalty rates would not have the desired impact of decreasing unemployment. It is more likely that existing employees would simply work additional hours for the same pay, but when it is also considered that not every business will need to provide its employees with additional work, then it is reasonable to assume that there will also be an undesirable increase in underemployment.

In 2011, the average retail worker employed in a regional area earned just \$32,200. Regional hospitality workers earned an average of just \$28,700. Many of these workers struggle to provide for their families already, and a further reduction in their salaries could have disastrous consequences. This is likely to hold true even if the reductions in penalty rates are modest.

Given the major consequences, The McKell Institute strongly urges all policy makers to protect all of the existing penalty rates system that has built Australia's successful businesses and regional communities.







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