Drycleaning Institute of Australia

Committed to Excellence

Submission to the Annual Wage Review 2022-23

29 March 2023

Introduction

This submission is made by the Drycleaning Institute of Australia (**DIA**) to the *Annual Wage Review 2022-23*.

The DIA is the peak industry association in Australia for the dry cleaning and laundry industry, representing businesses in the industry for over 70 years. DIA supports members by advocacy, representation, government relations, education, training, benchmarking and establishing operational standards.

The main modern award that applies to members of the DIA is the *Dry Cleaning and Laundry Industry Award 2020* (**Dry Cleaning and Laundry Award**).

Given the blunt and widespread application of minimum wage increases, it is essential that the Fair Work Commission (**FWC**) is mindful of the impact of its Annual Wage Review decision on award dependent sectors; particularly those with a large proportion of small businesses and those in which labour represents a large proportion of business costs. The dry cleaning and laundry industry is such an industry.

The Expert Panel has a difficult job this year in weighing all the competing considerations and arriving at an increase in minimum wages that takes into account the needs of the low paid as well as need to preserve business competitiveness and viability, and to promote economic growth.

Taking into account all relevant considerations, DIA submits that an increase that exceeds nominal wages growth across the community, as measured by the Wage Price Index (**WPI**) and Average Weekly Ordinary Time Earnings (**AWOTE**) would not be in anyone's interests. As set out in Table 5.1 in the *Statistical Report for the Annual Wage Review 2022-23*, for the year to December 2022:[1]

- The WPI increased by 3.3%, and

[1] *Statistical Report for the Annual Wage Review 2022-23,* Version 1, p.43.

- AWOTE increased by 3.4%.

An increase of the magnitude that the Expert Panel awarded last year (i.e. between 4.6% and 5.2% depending upon an employee's classification) would not be sustainable for businesses in the dry cleaning and laundry industry.

The characteristics of businesses and workers in the dry cleaning and laundry industry in Australia

IBISWorld reports that there were 4,683 laundry and dry cleaning services businesses in Australia, as at March 2023.[2]

The dry cleaning industry has low market share concentration and a high proportion of small businesses – most with less than 15 employees.

Labour market insights information[3] published by the Australian Government shows that there are around 15,600 Australian workers in ANZSCO Occupation Group 8115 - Laundry Workers. This Occupation Group covers: 811511 – Laundry Workers (General); 811512 – Dry Cleaners; and 811513 – Ironers and Pressers. 69% of workers in the industry are female.

The Government's labour market insights information states that Laundry workers earn, on average, $1,094 per week. This statistic is drawn from the most recent ABS *Survey of Employee Earnings and Hours* (May 2021).

Recovery from the pandemic and changed work models arising from the pandemic

The dry cleaning and laundry sector was heavily impacted by the pandemic and the sector was slower to recover than most other sectors.

[2] https://www.ibisworld.com/au/number-of-businesses/laundry-dry-cleaning-services/672/
[3] https://labourmarketinsights.gov.au/occupation-profile/laundry-workers?occupationCode=8115

In the *Annual Wage Review Decision 2020-21*, the Expert Panel of the FWC decided that 'exceptional circumstances' existed in relation to the retail industry justifying delayed minimum wage increases for employees in this industry. The Dry Cleaning and Laundry Award was described as one of the awards "which can be broadly characterised as relating to Retail trade".[4]

In the *Annual Wage Review Decision 2021-22*, the Expert Panel decided that 'exceptional circumstances' no longer existed justifying delayed minimum wage increases for employees in the retail industry. However, it is evident from the Decision that this conclusion was heavily based on an assessment of Professor Borland that the retail industry had 'fully recovered' from the pandemic, and from retail industry-level data on filled jobs, vacancy rates and Gross Value Added. There was no apparent consideration of whether the Dry Cleaning and Laundry sector had fully recovered.

Turnover has declined substantially over the past few years for many dry cleaners. A key reason for this has been the major expansion in working from home arrangements both during and after the pandemic. Hybrid work models are now the norm in many industry sectors. Where employees have returned to the office, they are often wearing more casual clothes than they wore prior to the pandemic given a widespread relaxation by businesses of their dress codes. These trends have led to a substantial fall in the number of suits, shirts and other office garments being dry cleaned.

Price sensitivity

Dry cleaning is a luxury and convenience item for many consumers. Therefore, dry cleaning businesses are not able to readily increase prices without the loss of a substantial amount of business.

Accordingly, it is important that cost increases imposed on dry cleaning businesses are moderate and sustainable, including cost increases arising from movements in award wages.

[4] *Annual Wage Review Decision 2020-21,* [271].

Labour costs

The cost of labour is the largest expense for businesses in the dry cleaning and laundry industry. This is highlighted by the results of the DIA's 2022 annual benchmarking survey of its members. The survey results for 2022 show that the largest expense item for the dry cleaning and laundry businesses that participated in the survey were:

- Wages (33% of revenue)
- Rent (13% of revenue)
- Gas and Electricity (6% of revenue)

The ATO's small business benchmarking data also shows that labour is the largest expense incurred by small businesses in the Laundry and dry cleaning services sector (**Table 1**).

Table 1: ATO small business benchmarks for 2019-20 – Laundry and dry-cleaning services

Annual turnover range	$65,000–$150,000	$150,001–$600,000	More than $600,000
'Labour' divided by 'Annual turnover'	22% to 33%	22% to 35%	29% to 41%
'Rent' divided by 'Annual turnover'	23% to 35%	13% to 21%	6% to 13%
'Motor vehicle expenses' divided by 'Annual turnover'	3% to 5%	2% to 4%	2% to 3%

In addition, a recent IBISWorld analysis[5] shows that labour is the largest expense for businesses in the Laundry and dry cleaning services sector. The analysis concluded that wages comprised, on average, 31.5% of revenue.

[5] https://www.ibisworld.com/au/number-of-businesses/laundry-dry-cleaning-services/672/

Given that labour is the largest expense for businesses in the dry cleaning and laundry industry, an excessive minimum wage increase will have a particularly harsh impact on businesses in this sector. It is important that any minimum wage increases awarded by the FWC are moderate in order to preserve businesses and jobs in the industry.

Penalty rates

Increases in minimum award wages result in higher amounts becoming payable for penalty rates (e.g. the 150% penalty for full-time and part-time employees and the 175% penalty for casual employees that apply for time worked after Noon on Saturdays).

The Dry Cleaning and Laundry Award includes higher Saturday penalty rates than the *General Retail Industry Award 2020*. It is very common for dry cleaning businesses to open on Saturdays.

Award-reliant employees

As mentioned above, in the *Annual Wage Review Decision 2020-21* the Dry Cleaning and Laundry Award was described as one of the awards "which can be broadly characterised as relating to Retail trade".[6]

The dry cleaning and laundry industry has a large proportion of award-reliant employees, like other retail trade sectors.

Table 7.2 (Economic indicators by award-reliant industries) in the *Statistical Report for the Annual Wage Review 2022-23* characterises the retail industry as an award-reliant industry because it is one of five industries with the highest proportion of employees who are paid exactly the award rate of pay, based on the ABS *Employee Earnings and Hours 2021* survey.[7]

[6] *Annual Wage Review Decision 2020-21,* [271].

[7] *Statistical Report for the Annual Wage Review 2022-23*, Version 1, p.63.

Table 7.1 in the Statistical Report identifies that in 2021 approximately 30% of the employees in the retail sector were award-reliant.[8] The level of award-reliance in the dry cleaning and laundry sector is very likely higher than 30% because a large proportion of the businesses in the sector are small businesses and such businesses are more likely to pay award rates than larger businesses.

In *Annual Wage Review Research Report 1/2015: Award reliance and business size: a data profile using the Australian Workplace Relations Study*, by Kelvin Yuen, David Rozenbes and Samantha Farmakis-Gamboni, a particularly high level of award-reliance amongst employees of small businesses in the retail sector was identified:

> *The proportion of businesses by industry presented in Table 3.3 shows that small businesses in Retail trade and Accommodation and food services were relatively more likely to have award-reliant employees than other industries. Industries with the highest proportion of small businesses with more than half of their employees award reliant were Accommodation and food services; Retail trade; and Health care and social assistance. For small businesses with up to half of their employees award reliant, the industries with the highest proportion of businesses were Retail trade; Professional, scientific and technical services; and Construction.*

Award wage increases have a greater impact upon businesses which employ award-reliant employees than the impact upon other businesses because employers of award-reliant employees have no ability to absorb the increases into over-award payments. Therefore, the Expert Panel should give particular weight to the adverse impacts on dry cleaning and laundry businesses and other businesses which employ a large proportion of award-reliant employees, when making its decision in this year's Annual Wage Review.

[8] *Statistical Report for the Annual Wage Review 2022-23*, Version 1, p.62.

Review of certain C14 rates in modern awards

In the *Annual Wage Review 2018-19* proceedings, the Expert Panel of the FWC noted that 45 modern awards include a rate of pay at the C14 (or National Minimum Wage) level. Of these 45 awards, the C14 classification appeared to be transitional in eight modern awards but no particular transition period was specified, and in six modern awards the C14 classification appeared to not be transitional. In mid-2022, then President Ross referred 10 of the awards to a Full Bench for consideration of whether the C14 classifications in each of these awards provide a fair and relevant safety net of terms and conditions. The Dry Cleaning and Laundry Industry Award is one of the 10 awards.

On 5 December 2022, a joint proposed award variation was submitted to the Full Bench by the DIA, ABI and the NSW Business Chamber, the CFMMEU (Manufacturing Division), the AWU and the UWU. The proposed variation would limit the time when an employee can be classified at Dry Cleaning Employee Level 1 to six months.

The Full Bench is yet to make a decision in relation to the parties' proposed award variation.

If the agreed variation is accepted by the FWC, labour costs will increase for all employers in the dry cleaning industry with employees classified at Dry Cleaning Employee Level 1. This increase in labour costs is unlikely to have a significant adverse impact upon businesses if a moderate increase in minimum wages is awarded in this year's Annual Wage Review. However, if the FWC awards an excessive increase in minimum wages in the Annual Wage Review, the agreed award variation would add to the cost pressures upon businesses in the industry.

Impact on apprenticeships and traineeships

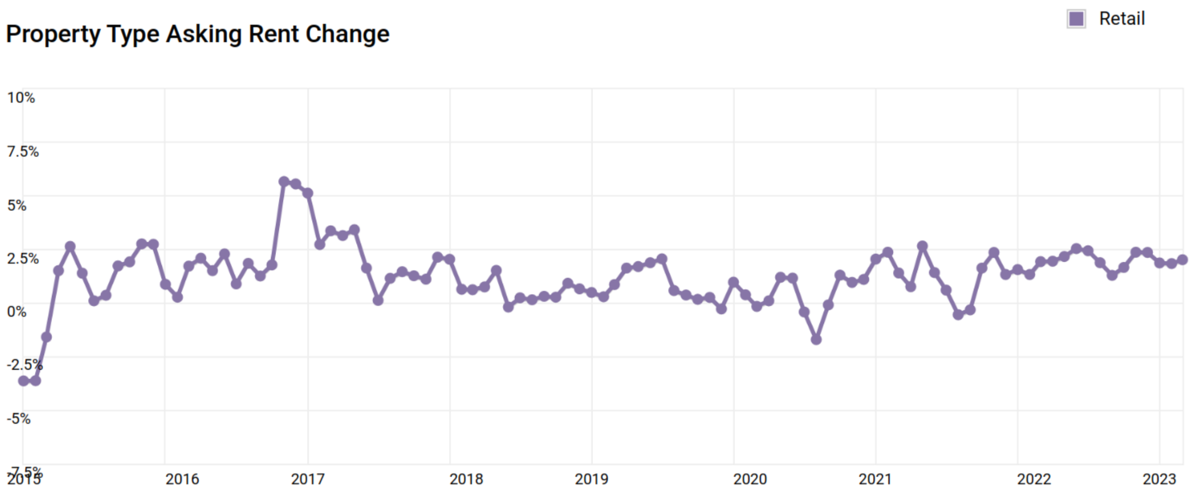
There is currently a major shortage of skilled dry cleaning employees in Australia. To address this shortage, it is essential that businesses are encouraged to engage apprentices and trainees.

If the Expert Panel decided to award an excessive increase in award wages, this would result in a substantial increase in minimum wage rates for apprentices and trainees and a barrier to businesses in the dry cleaning industry being able to engage apprentices and trainees.

Rent expenses

As identified above, rent is the second largest expense item after labour for businesses in the dry cleaning and laundry sector.

Rent prices for retail properties have risen substantially over the past 18 months as can be seen in the following chart which dispays data from the Asking Price Index (**API**) produced by Commercial Property Guide. The chart shows that retail property asking prices increased by 2.03% in the three months up to the end of the first week in March 2023.



Source: Asking Price Index (API) Commercial Property Guide.

The results of the DIA's 2022 annual benchmarking survey of its members showed that rent costs were, on average, around 13% of revenue for those businesses that participated in the survey.

Energy expenses

The recent steep increases in gas and electricity prices, with further large increases expected, have had a substantial impact upon businesses in the dry cleaning and laundry sectors.

Dry cleaners typically use gas to power their boilers and in some cases their dryers. Gas costs are typically higher than electricity costs in dry cleaning businesses but electricity costs are still significant.

For those dry cleaning and laundry businesses that participated in the DIA's 2022 annual benchmarking survey, gas and electricity costs were, on average, around 6% of their revenue.

On 13 March 2023, the Hon Chris Bowen MP, Minister for Climate Change and Energy, gave a speech to the Sydney Institute. In his speech, the Minister stated:

> *Treasury forecasted a 20% rise in electricity costs in 2022-23, and a 36% rise in electricity costs in 2023/24.*
>
> *For gas prices, it was a 20% increase in 2022/23, and a 20% increase in 2023/24.*

The Minister went on to state:

> *This week the Australian Energy Regulator will release the draft Default Market Offer – the reference price for residential and small business electricity prices in NSW, SA and South East Queensland.*
>
> *And while I'm not going to pre-empt the AER's determination of this, I do want to give some new insight into exactly why the Government had to act in December.*
>
> *In November, the AER advised Government that without action, the Residential DMO would increase:*
>
> - *between 35 and 44 per cent in NSW*

- *in SA – 51 per cent*
- *in South-East Queensland, 41 per cent.*

Based on these numbers, the Government estimated for small business customers, the increases were:

- *37 per cent in NSW*
- *53 per cent in SA and*
- *50 per cent in South-East Queensland.*

We simply had to act.

I expect the draft DMO released this week to be significantly lower than the AER's predictions pre-intervention.

As foreshadowed by the Minister, the Australian Energy Regulator released its draft Default Market Offer on 15 March 2023. While the price increases were a little less than Treasury had predicted late last year, small businesses are still facing very substantial price increases from 1 July 2023. (See chart below).[9]

[9] As published in the *Australian Financial Review* on 16 March 2023.

Borrowing expenses

The recent steep rise in interest rates has impacted businesses in the dry cleaning and laundry sector. Businesses often need finance to commence operations, to purchase equipment and for overdraft facilities.

The increased borrowing expenses have reduced the capacity of businesses in the dry cleaning and laundry industry to afford wage increases. Therefore, it is important that any minimum wage increases awarded by the Expert Panel are moderate.

Inflation and interest rate risks

An excessive increase in minimum wages would fuel inflation and lead to even higher interest rates. The impact would be felt most harshly by low income earners through higher prices of goods and services, and higher rents.

At the Australian Financial Review Business Summit on 8 March 2023, Reserve Bank Governor Philip Lowe said *"we know that if we don't get on top of inflation [it means] higher interest rates, more unemployment, more pain"*. Mr Lowe's comments were widely reported in the press.

Superannuation Guarantee increase on 1 July 2023

The Superannuation Guarantee will increase from 10.5% to 11% on 1 July 2023.

In the *Annual Wage Review Decision 2020-21*, the FWC stated:

> ***[58]*** *Consistent with the position taken in past Review decisions, we have taken the 0.5 percentage point increase in the SG rate into account in determining the level of increase in minimum wages in this Review, but we have not applied a direct, quantifiable, discount to the minimum wage increase.*
>
> ***[59]*** *The SG rate increase to apply from 1 July 2021 is a moderating factor in considering the adjustment that should be made to minimum wages. As a result, the increase in modern award minimum wages and the NMW we have*

awarded in this Review is lower than it otherwise would have been in the absence of the SG rate increase.

In the *Annual Wage Review Decision 2021-22*, the FWC stated:

> ***[154]*** *Consistent with the position taken in past Review decisions we have taken into account the 0.5 percentage point increase in the SG rate, the removal of the $450 SG threshold and the 2022–23 Budget measures mentioned above in determining the level of increases in minimum wages in this Review, but we have not applied a direct, quantifiable discount to the minimum wage increases. These SG changes and Budget measures are moderating factors in our consideration of the adjustment to minimum wages and consequently the increase in the NMW and modern award minimum wages we have determined in this Review are lower than they would have been absent these factors*.

Consistent with the position taken in past Annual Wage Review decisions, the FWC should take into account the 0.5% increase in the SG from 1 July 2023 and increase award wages by a lower amount than would otherwise have been the case.

Proposed minimum wage increase

The Expert Panel has a difficult job this year in weighing all the competing considerations and arriving at an increase in minimum wages that takes into account the needs of the low paid as well as need to preserve business competitiveness and viability, and to promote economic growth.

Taking into account all relevant considerations, the DIA submits that an increase that exceeds nominal wages growth across the community, as measured by the WPI and AWOTE would not be in anyone's interests. As set out in Table 5.1 in the *Statistical Report for the Annual Wage Review 2022-23*, for the year to December 2022:[10]

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