



Tourism Industry Association New Zealand

Comments to the

Transport and Industrial Relations Committee on the Holidays (4 Weeks Annual Leave) Bill

June 2003

About Our Association and Industry

Background

The Tourism Industry Association New Zealand (TIANZ) represents the interests of the tourism industry.

Tourism is a \$14.6 billion industry and generates around 9% of New Zealand's GDP. The tourism industry employs 1 in 10 New Zealanders in a diverse range of businesses – the majority of which are small and medium sized enterprises. Not only is tourism important because of its size. It is also:

- Highly employment intensive
- Regionally dispersed
- Has the flexibility to change its target markets quickly as conditions change.

New Zealand welcomes over two million overseas visitors to its shores every year. The domestic tourism industry is also important in helping to sustain a vibrant tourism industry. TIANZ estimates that over 75 million visitor nights are spent away from home by New Zealanders every year.

The Transport and Industrial Relations Select Committee is considering the Holidays (Four Weeks Annual Leave) Bill. TIANZ welcomes the opportunity to comment on this Bill.

Introduction

This submission provides the following comments:

- information on the tourism industry and the 'good employer' values that TIANZ encourages within the industry
- Identification of the fact that the Tourism Industry will only benefit from the proposed Bill if its cash impact on its businesses is minimised whilst providing additional leave to employees – preferably full time employees
- general comments on the Bill
- potential impacts of the Bill on tourism businesses and recommendations to the Committee on behalf of the tourism industry.

Being a Good Employer

TIANZ encourages good employer practices within the tourism sector. TIANZ recognises that **people** are the industry's key resource and we understand the importance to tourism businesses of being able to attract and retain good quality employees. We also promote effective people development practices. Such practices result in higher standards of customer service, higher productivity and ultimately a satisfying work environment for those who choose a career in the tourism industry.

TIANZ is aware that New Zealand annual leave entitlements for full-time employees are becoming increasingly out-of-step with the entitlements in other developed countries, with most (including Australia) offering them a minimum of four weeks annual leave. At the same time, many business groups have been concerned that New Zealand employees are being attracted to careers overseas by better working conditions. We also acknowledge that annual leave entitlements in New Zealand have not changed since 1974.

However, the tourism industry is made up of private businesses. These businesses operate in a competitive market. Therefore, a consideration of the cash costs to businesses of any new employment legislation proposals is crucial to our industry. The Tourism Industry also employs a high proportion of casual and part-time employees. In terms of this Bill we will show that there is a significant additional cash cost implication devoid of commensurate benefit in respect of part-time employees.

Issues for the tourism industry

The importance of leisure time to tourism

The World Tourism Organisation (WTO) in its report titled "*Changes in leisure time: the impact on tourism*", notes the strong connection between the tourism industry and the time employees are able to spend away from work. Limited leave entitlements (as well as limited spending money) are important factors that limit the ability of people in paid work to undertake leisure activities, including tourism. The WTO notes in this report that many employees work in competitive and demanding work environments that make it difficult for them to take the annual leave entitlements allocated to them. This issue is a particularly significant one for employers/employees in the tourism industry, given it is a labour-intensive industry and operates 24 hours a day, over 7 days a week.

The WTO also suggests that a flourishing tourism sector requires "*that more flexible working hour regimes take account of the family and social responsibilities of employees and provide for a balance between work and other aspects of life.*" (P8)

Therefore, this view implicitly supports policies that:

- enable employees to have adequate leave allocations to undertake leisure activities; and

- promote the use of existing annual leave entitlements.

Many people have difficulty taking existing leave

TIANZ believes that unused leave is also a problem in New Zealand, although the New Zealand experience is not well documented or researched.

The Australian experience shows that the taking of existing leave entitlements is currently an important issue. This has been the subject of a survey commissioned by See Australia, a joint Australian Federal Government/industry initiative, and undertaken by Woolcott Research¹. The results from the Australian survey showed that: in 1999, 40% of working Australians took no leave, and 43% took part of their accrued leave. In 2001, 30% of working people took no leave, while in 2002 there was an increase to 50% in the number of working Australians who did not take any leave.

The key reasons for not taking leave were:

- people were too busy at work
- people were self-employed so could not take time off
- people were saving leave up for a later date.

These results suggest that a significant proportion of working people in Australia fail to take the existing leave allocated to them. Given the overall economic and cultural similarities between New Zealand and Australia, it is reasonable to expect that the conclusions from that survey would be relevant to New Zealand to a large extent.

Implications of increasing minimum holiday entitlements

The purpose of the Holidays (4 Weeks Annual Leave) Bill is to increase the minimum leave entitlement from three to four weeks.

There are a number of both positive and negative consequences of this proposal from a tourism perspective:

¹ *Annual Leave Evaluation, 2000 undertaken by Woolcott Research, and commissioned by See Australia*
www.seeaustralia.com.au/html/research.jsp

Positive

- International experience suggests that increasing time off work increases expenditure on recreation. One study² calculated that a 10% increase in vacation time in Canada would be associated with an increase of 1.5% on Canadian recreational expenditure. Recreation is a significant component of Tourism and this implies that a benefit might accrue from greater expenditure as a result of greater leave entitlements by New Zealanders who are in full-time employment.
- The same Canadian research³ found that increasing time off work provided significant increases in the productivity of labour. It also concluded that *“approximately 22-23% of the additional costs of paid vacations can be recaptured through labour productivity gains.”*
- Research from France⁴ also suggests that there can be productivity gains through work-hour changes. French research shows that one outcome of the 35 hour week introduced in France in 2000 was an “intensification of workloads”. This suggests there is an opportunity for enhanced leave provisions to serve as a catalyst for greater workplace productivity.
- Canadian research conducted on absenteeism⁵ found that Canadian employers lose an average of 8.5 days for each employee, costing an average of \$3,550 per employee. This same study found that this absenteeism cost (in both direct and indirect costs) employers 17% of their total payroll costs. Enhanced leave provisions can provide an opportunity for employees to use legitimate leave for “personal reasons”, rather than relying on sick leave and other absent days for extra days off.

Negative

- An increase in the minimum annual leave entitlements will add approximately 2% in cash to the total wage bill of employers where such employers are required to replace staff on leave. This is an issue for the tourism industry which is a 24 hours/7 days a week industry. Employers will also incur further increases if employees who currently receive more than the current statutory minimum seek increased annual leave to preserve their existing relativities and these needs are met with cash.

² Sport and Recreation Research Communique No 14 prepared by the Ministry of Tourism and Recreation, Ontario Canada

³ Ibid

⁴ Reduction of working time: lessons from its analysis, National Economy Planning Agency, France 2001

⁵ Tracking absenteeism in the workplace by Shelley Kee, 2003 www.chmonline.ca/ho2003/agenda.html

- There are particular issues for the tourism industry, given the high number of casual and part-time employees working in its businesses, particularly in larger businesses such as hotels and attractions. Casual employment arrangements cater to the expressed needs of many employees, and such arrangements also benefit employers. Tourism business activity is also seasonal and in most businesses fluctuates significantly throughout the year. In general, the experience of our members is that casual and part-time workers have the expectation that their annual leave will be “cashed” and paid out on leaving their employment. In these all-too-common cases, increased leave entitlements do not lead to more days off for “rest and recreation” but simply add further cash costs for businesses. Increased annual leave would not lead to increased domestic tourism activity since these lump sum leave payments are typically spent in the areas in which they are earned, i.e. these employees would spend their “cashed” annual leave at home.

TIANZ is convinced that a clear distinction needs to be made between annual leave policies for full-time employees, and part-time employees in considering proposals to increase minimum annual leave entitlements. We recommend that the Committee consider the argument that:

for full-time employees, the principles of ‘rest and recreation’ are clear and undisputed, but for part-time employees, the practice is not to use leave for this purpose, but rather to use it as a component of their cash remuneration.

- Department of Labour occupational shortage lists confirm that skill shortages exist in some areas of the tourism industry. Increased minimum annual leave requirement would create a challenge for tourism employers in the accommodation and attractions sectors to find replacement staff, especially in ‘iconic’ tourism destinations in regional areas. This would lead to unnecessary upward pressure on salaries and wages which have no commensurate business or customer benefit. In some sectors of tourism, this may require some operators to reduce their hours of operation. In other sectors, difficulties in obtaining staff could compromise safety standards.
- The benefits of increased tourism activity will vary considerably between tourism businesses. In general, the tourism businesses that stand to benefit from increased minimum annual leave entitlements are ones that cater to the domestic tourism market such as motels, holiday parks/camping grounds, and attractions. Businesses that primarily have overseas visitors as their customers, i.e. large hotels, are much less likely to benefit from increased activity from increased annual leave entitlements.
- This proposal comes at a time when businesses are absorbing and adjusting to new provisions which have genuine cash cost implications such as: the Parental leave requirements (recruiting replacement staff), new Health and Safety requirements, and increased ACC levies. This Bill will impose a further cash cost on businesses who are unable to manage additional leave without recruiting relief.

- It is proposed that minimum annual leave entitlements be increased at a time when many existing employees (based on Australian research referred to earlier) are likely to be struggling to take their current entitlement of annual leave. Where this is the case, increased minimum annual leave entitlements simply become a deferred cash liability for employers, especially when employees leave their employment. This is a further cost on businesses and has nothing to do with the principles of rest and recreation'. TIANZ does not believe there is sufficient imperative or strength in current legislation to assist responsible employers in managing untaken leave. It is no secret that employers are reluctant to appear overbearing or aggressive in managing employees who have a disposition to hoarding annual leave. There is nothing worse for employers to have to 'cash-up' annual leave when the opportunity to manage it through the year proves fractious. This suggests that a "use or lose" policy should be incorporated into any proposals, if the Committee decides to press ahead with them. This would provide an incentive to employees to maximise their use of leave, and would encourage employers to facilitate the taking of annual leave in a manner that optimised cash expenditure and customer service.

TIANZ's examination of the Tourism Satellite Accounts indicates that PROVIDED that the cash costs of the extra leave can be managed there is a better than even chance of increased travel from Householders (in the domestic market) balancing out the costs of implementing an additional weeks leave for full-time staff⁶.

Considering the benefits with the costs

TIANZ:

- **Recognises** there are considerable long-term expenditure, output and potential productivity gains that could result from an increase for full-time employees from three to four weeks leave. This could benefit many tourism businesses.
- **Notes** that a blanket increase in leave entitlements would impose further cash costs on businesses as many tourism businesses would have the added cost of relief while other employees are on leave. We also note that trained relief is already in short supply.
- **Asserts** that, based on Australian research, it is certain that many New Zealanders are not taking all of their current annual leave entitlement and some will not be taking any of their annual leave entitlements. Therefore, in the absence of any initiatives to encourage and promote the uptake of annual leave, an increase in annual leave entitlements will not necessarily lead to a greater number of annual leave days being taken, and simply becomes an unavoidable cash liability for employers.

⁶ From TSA 1999 pages 6 and 28.

- **Is aware** that this proposal to increase minimum leave entitlements comes during a period when businesses are already trying to adapt to other new workplace laws and initiatives. There is a risk that some businesses might find the accumulative impacts of recent new workplace legislation, together with increased minimum annual leave entitlements, difficult to adapt to. This points to the need to develop policies that differentiate between casual/part-time employees and full-time employees. At the same time, these businesses might, in the medium to long-term, benefit from the increased domestic tourism activity from New Zealanders taking longer holidays.

Phased-in change

On balance, TIANZ believes that the key issue for the Tourism Industry is the minimisation of cash costs to employers and the optimisation of ‘rest and recreation’ for employees arising from this Bill.

TIANZ offers the following considerations to the Committee which, if accepted, would gain the Tourism Industry’s support:

- Full-time employees (or casual workers that work hours equivalent to a full-time employee) have the greatest potential to both receive and create benefits for themselves and their employers arising from an additional 5 days leave .
- Untaken leave is simply a ‘cash-burden’ on employers and contrary to the principles of ‘rest and recreation’ and the Bill should be amended to require annual leave allocations to be taken within 18 months of their allotment or forfeited (unless there is a written agreement between the employer and employee to the contrary).
- The general preference of part-time employees for ‘cashed-up’ annual leave is an unavoidable cost to employers which need not be increased through this Bill and should remain at three weeks. Overall remuneration of part-time employees is a separate matter and there is ample provision to address this through existing legislation rather than through granting additional leave.
- The Bill should not come into effect until the end of 2004 at the earliest. This phase-in period would provide businesses with some time to plan for this new change. It would be appropriate during this period for central government to undertake initiatives, in association with industry, to promote the importance of New Zealand workers taking annual leave, and to encourage sound work/life balance practices.
- Central government in consultation with industry should develop strategies that businesses (including small businesses) can use to enable them to cope with increased annual leave requirements. TIANZ is aware that in Australia agencies such as the Productivity Commission (a Federal Government agency) are involved in microeconomic research that leads to policies that enhance productivity. Making better use of the existing Ministry of Economic Development for small and medium business research would be a start.

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