ARTIO Submission to the Senate Education and Employment Committee Inquiry into Long Service Leave Portability

The Australian Road Transport Industrial Organisation (ARTIO) is opposed to the extension of the prevailing State and Territory statutory long service leave regimes to one where an employer is required to manage/contribute to a fund/scheme established to enable long service leave portability, whether industry based or a nationwide scheme.

Such an arrangement would change completely the rationale behind the existing long service leave regime, that is, to reward long serving and loyal employees who have worked for a single employer over a period of at least seven years.

Background

Who we are:

- ARTIO is an Industrial Organisation of Employers registered under the Fair Work (Registered Organisations) Act 2009. It has been so registered since 1984. ARTIO represents employers in the transport and logistics industry, particularly those engaged in road transport.
- 2. ARTIO's membership includes large multi-national transport companies including those publicly listed. Our collective membership extends across privately owned small to medium businesses, geographically operating throughout Australia. Collectively, members of ARTIO's Branches perform a significant component of Australia's urban, regional, remote and interstate freight task across the manufacturing, retail, housing and

- construction, agriculture, mining, import, export and other sectors of the economy.
- 3. ARTIO has represented the industry in the Australian Industrial Relations Commission and its successor the Fair Work Commission since achieving registration.
- 4. Although ARTIO operates nationally in all states, except South Australia, this submission will focus on the Victorian long service leave regime, with occasional reference to the other states, to reflect different standards or entitlements, respectively.

Long Service Leave (LSL)

- 5. Long Service Leave (LSL) is unique to the Australian and New Zealand jurisdictions. LSL was introduced to reward an employee for loyalty and, as the name suggests, long and continuous service with one employer.
- 6. It is different to annual leave, personal leave etc which are specific and begin to accrue immediately to an employee.
- 7. In Australia, LSL was codified in the late 1940s/early 50s by each State Parliament legislating to introduce 'standard' entitlements which initially created an entitlement to take LSL for thirteen weeks after fifteen years continuous service, as defined.
- 8. Some Federal Awards did introduce LSL in the 50s, but by and large, the issue was left to the State Parliaments to regulate.
- 9. Subsequent amendments over 50 odd years have improved an employee's entitlements to the level where, generally now, an employee is entitled to two months LSL after ten years continuous service with the one employer. Further, this can be accessed on a pro-rata basis after seven years (or five in NSW) if the employment relationship ends.

- 10. It is noteworthy that Victoria is the only jurisdiction which allows an employee to keep their LSL entitlement if summarily dismissed. It has led, in one case at least, to an employee being instantly dismissed for stealing \$20K then requesting payment of their LSL entitlement on the way out.
- 11. In Victoria, LSL is regulated by the Long Service Leave Act 1992, which was substantially amended in 2005 by Act No: 23/2005 (Long Service Leave (Amendment) Act 2005).
- 12. In simple terms, an employee's LSL entitlement is calculated by the number of weeks of continuous service divided by 60. So, if an employee has eleven years continuous service, which is 572 weeks, then their LSL entitlement is 9.53 weeks.
- 13. LSL is generally paid at the 'ordinary time rate of pay'. This is determined by the applicable industrial award or enterprise agreement, if one applies. Where there is no specified 'ordinary time rate' then it is determined by averaging the employee's earnings over the preceding twelve months or five years, and applying the higher of those two figures.
- 14. Interestingly, some breaches of the Victorian LSL Act are treated as criminal offences and could therefore give rise to custodial sentences see Parts 15 and 16 of the Victorian LSL Act 1992. It appears this criminal treatment is unique to Victoria.
- 15. Further, in most jurisdictions, and certainly in Victoria, it is illegal to 'cash out' LSL, other than at the time of termination of the employment relationship.
- 16. Thus, it is unlawful for both an employer to grant LSL to an employee knowing that such employee will continue to work, either at their normal place of employment or elsewhere. It is also unlawful for an employee to accept LSL payment and continue to work.

- 17. Following the Melbourne Cricket Club case early last decade and subsequent statutory amendments, it is now well-established law that in Victoria a casual or seasonal employee has an entitlement to LSL if there is a pattern of regular and continuous work over the statutory qualifying period.
- 18. Such an entitlement generally exists to casuals across each jurisdiction.
- 19. Across the eight Australian jurisdictions, 'portable' LSL has been introduced into the following industries:
 - i. Building and construction generally
 - ii. Contract cleaning in some states
 - iii. Coal industry in some states
- 20. Although LSL is regulated at the state level, it was included as one of the National Employment Standards (NES) introduced by the Federal Government in the Fair Work Act 2009.

Costing/Accrual Issues

- 21. The current Australian Accounting Standard dealing with LSL accrual is AASB 119. It sets out the protocols to be followed by business in accruing LSL. It is a complex document but essentially requires an employer to show LSL accruals in their financial reporting documents.
- 22. Specifically, it stipulates that the expected present value of an employer's long service leave liabilities be recognised on their balance sheet.
- 23. An actuarial technique is then applied towards calculating those liabilities. The following table details the probability of an employee accruing an LSL entitlement based around their length of service:

Table 1

Employee Yea	rs of Service	Probability of taking
		LSL
<1 yr	0.00	10%
1-2yrs	1.00	25%
2-3 yrs	2.00	35%
3-4 yrs	3.00	70%
4-5 yrs	4.00	80%
5-6 yrs	5.00	90%
6-7 yrs	6.00	100%
7+ yrs	7.00	100%

- 24. This clearly shows that there is only a one in three probability of an employee, who has worked with the same employer for less than three years, accessing LSL.
- 25. Once again referring to Table 1 only one in ten employees who commence work with an employer will go on to access an entitlement to LSL. Or the corollary of that conclusion is that ninety per cent of employees do not reach an LSL entitlement.
- 26. These actuarial estimates have been borne out by actual figures obtained from ARTIO Branch members which support similar conclusions. In particular, one member had 34 employees separate in 2014/15 and of those only 2 or 5.88% had an LSL entitlement.
- 27. If a 'portable LSL Scheme' were introduced then this would have an immediate and substantial effect on employment costs.
- 28. Using the actuarial data in paragraph 23 Table 1 above the employer would have had to contribute to a statutory or industry LSL fund for

- those thirty two employees. This would equate to around \$35K or a cost of just above \$1,000 per employee assuming an annual salary of \$60K and using an actual LSL 'on cost' accrual of 1.7%.
- 29. These figures are consistent with what an employee who had worked for ten years and then accessed their LSL entitlement would receive, that is about \$10,000 or around \$1,000 per week in today's terms.
- 30. These figures are from several medium sized businesses operating in the freight and logistics industry.
- 31. The 2011 Census reported that there are around 10.06M employees working in Australia with an average wage of just above \$51K. It also advised that 4.8 per cent, or about 480,000, were engaged in Transport Postal & Warehousing. Accessible at:

http://stat.abs.gov.au/itt/r.jsp?RegionSummary®ion=0&dataset=ABS

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- 32. Once again extrapolating the data from paragraph 22 above, it could mean that the cost to the freight and logistics industry of introducing portable long service leave would be around an additional \$0.5 billion every year.
- 33. It is important to remember that these figures are four years old and both wages and the number of workers has increased since then. Using a conservative figure, that amount would now be closer to \$660M annually for the freight and logistics industry.
- 34. Using the ABS figures, the cost of introducing a portable LSL scheme, with immediate accrual and vesting benefits, would be over \$9 billion annually across the Australian economy.

- 35. Further, the attached Schedules 1 and 2 (extracts from ABS 62090 Labour Mobility as at February 2013) show that around 46% of Australian workers have spent at least 5 years working with the same employer.
- 36. These schedules examine the ABS census data from different perspectives:
 - a. Schedule 1 does so from an industry perspective and
 - b. Schedule 2 does so from a geographical angle
- 37. Applying the actuarial data contained in Table 1 above which indicates that once an employee reaches five years of service with an employer the chance of that employee accessing long service leave is 90%.
- 38. Put differently, the longer that an employee works for the same employer, the higher the probability of that employee attaining an LSL entitlement.
- 39. This would mean just over 40% of the Australian workforce could be expected to access long service leave. In absolute terms that is just above four million workers.
- 40. Surely, this shows that the current State and Territory legislative regimes providing long service leave entitlements are working exactly as the legislation intended to reward loyal and long serving employees for continuous service with the one employer.

General Issues

41. Beyond the narrative above, there are several very important issues to consider should the Federal Government, or any Government for that matter, make a decision to introduce 'portable long service leave'. These include:

- a. Would any such scheme operate in specific industries only or across the total economy? In other words, could an employee change both employer and industry every six months or so and still 'accrue' or have paid into an account a LSL entitlement.
- b. When would any such funds accrued be accessible to an individual– when leaving a job, after a defined period or after seven years?
- c. Currently, 'work experience' as a school student counts for LSL accrual in Victoria at least—would such an arrangement continue under a 'portable scheme and how would it be funded?
- b. What would happen if a Victorian worker under a portable scheme moved interstate?
 - i. Would the accrued monies be paid out?
 - ii. Would his account be maintained?
 - iii. Would such service count with the same employer in another state?
- c. Will the standard casual loading of 25%, to compensate for non-entitlement to annual leave and personal leave, set under the Federal system be increased to 30% or more to compensate casual employees, who do not work regular and systematic patterns over a ten year period, for their inability to access an LSL accrued entitlement.
- d. Given the potentially large numbers of both employees and monies involved, how would any portable scheme be implemented and governed?
- e. Initially, it is submitted that it would have to be government funded and run and such officials would be holding monies in trust, similar

- to a superannuation fund, and would then be required to exercise fiduciary responsibilities and all that entails.
- f. If 'portable industry schemes' were established what governance models would apply?
- g. When would any monies be paid weekly, monthly, quarterly or annually, as such monies would impact an employer's cash flow?
- h. How would monies be transferred between them?
- i. Would investment decisions and returns be homogenous across all funds?
- j. Would these industry bodies or funds be regarded as financial institutions under the supervision of the Australian Prudential Regulatory Authority (APRA)?
- k. Who would enforce the payment of such entitlements and through which Court system would any actions be litigated?
- I. What additional resources would the Federal and State Governments provide to ensure any scheme(s) operated efficiently and fairly?
- 36. ARTIO also has serious concerns that the implementation of any portable scheme for employees in the freight and logistics industry would flow on to owner-drivers who perform around 25% of the road freight task.
- 37. For example in Victoria, the Victorian Government enacted the Owner Drivers and Forestry Contractors Act 2005 (Act No 49/2005) to provide some regulation to owner drivers and contractors working in the forestry industry.
- 38. This Act mandates the preparation and publication of Rates and Costs Schedules for various vehicle classes commonly used by owner drivers.

- 39. These schedules currently include award wage rates and, as well, cost employee leave entitlements into those guidance schedules.
- 40. Section 31 of that Act specifically prohibits 'unconscionable conduct' which is defined as "the amount for which......the contractor could have supplied identical or equivalent services to a person other than a hirer, including as an employee." (emphasis added)
- 41. More directly, in any order made by the Tribunal, it must have regard to "the amount to which the contractor would have been entitled if the contractor had provided the services as an employee" (s. 45 (3) (b) of the Act).
- 42. Therefore, if an employee became entitled to an LSL contribution being made to a fund on their behalf under a portable scheme, then such amounts would, in all probability be added to owner driver costs, and need to be factored into the Rates and Costs Schedules published by the Minister on the advice of the Transport Industry Council.
- 43. This would add further costs to the industry and eventually the consumer as transport prices would increase.

Conclusion

- 44. ARTIO opposes the introduction of any portable LSL scheme beyond those currently applying and detailed in paragraph 19. The minimum cost of doing so, being in the order of \$660M per annum to the freight and logistics industry, would limit funds available for new investment and job growth.
- 45. The cost to the Australian economy of around \$9 billion is extreme and clearly unaffordable.

- 46. ARTIO submits that the current state legislative regimes are working precisely as intended, in that around 40% or just over 4 million workers can expect to take long service leave at some time during their working life.
- 47. As detailed in this submission, there are many complex and difficult questions to be addressed before any extension to the LSL entitlements can be considered across Australia.

Australian Bureau of Statistics

62090DO005_201302 Labour Mobility, Australia, February 2013 Released at 11:30 am (Canberra time) Wed 21 Aug 2013

Table 5 PERSONS WHO WERE WORKING AT FEBRUARY 2013, Duration with employer/business at February 2013-By industry at February 2013

		FEBRUARY 2013	3		ONE YEAR OR MO		RE WITH EMPLOYED CONTROL AT THE TOXY - AS TO	HONORAL PEDINORN	- 2013	
		3 and under 6 6 ar	6 and under 12		1 and under2	2 and under 3	3 and under 5	5 and under 10	10 years and	
	Under 3 months		months	Total	years	years	years	years	over	Total
industry at February 2013	,000	000	000	000	,000	,000	,000	000	000	,000
				MALES						
Agriculture, forestry and fishing	10.4	7.0	11.4	28.8	16.2	11.7	21.4	24 7	115.4	218.2
Mining	9.2	12.7	23.3	45.2	39,1	30.4	33,3	43.9	32,4	224.4
Manufacturing	35,3	28.7	49.0	113.0	70.9	72.0	92,3	129.6	204.8	682.7
Electricity, gas, water and waste services			5.0	16.0	17.0	17.2	9.8	17.9	29.7	107.6
Construction	43.4	42.8	80.3	166.5	88.4	106.7	127.4	161,3	235,4	885.7
Wholesale trade	11.7	11.2	22.6	45.6	35,6	29.5	46.3	65.2	92.0	314.3
Retail trade	28.0	42.2	45.0	115.2	72.9	63.9	80.5	98.7	94.5	525.6
Accommodation and food services	27.2	32.2	48.3	107.7	61.5	47.4	53.6	50.3	30.1	350.6
Transport, postal and warehousing	24.5	30.0	37.4	91.9	52.1	49.7	62.9	83.7	130.8	471.1
Information media and telecommunications	5.7	5.6	7.9	19.2	11.2	9.2	23.5	24.9	40.7	128.7
Financial and insurance services	8.0	11.4	9.4	28.8	21.3	22.1	33.1	39.0	45.2	189.5
Rental, hiring and real estate services	4.1	3.8	12,8	20.7	10.4	14.1	13.3	17.7	21.7	97.9
Professional, scientific and technical services	19.9	19.0	42.9	81.8	54.1	57.5	84.6	107.2	132.1	517.3
Administrative and support services	10.9	15.4	16.1	42.4	26.3	23.8	30,3	32.4	35,9	191.1
Public administration and safety	9.1	12.5	18.2	39.8	29.0	27.3	55,0	85.6	150.1	386.7
Education and training	17.6	6.2	14.2	38.0	28.9	23.1	32.7	56.4	109.5	288,5
Health care and social assistance	16.7	8.1	18.1	42.9	28.8	39.0	46.9	56.2	95.1	308.9
Arts and recreation services	3.2	8,1	8,4	19.7	17.1	7.7	18.9	21.7	26.7	111.8
Other services			17.7	47.0	29.2	29.0	36.8	51.8	76.8	270.6
Total	303.7	318.6	488.0	1,110.3	710.2	681.4	902.4	1,168.2	1,698.8	6,271.2
			-	FEMALES						
Agriculture, forestry and fishing	2.8	4.2	3.1	10.1	3.5	5.5	14.2	14.8	52.3	100.3
Mining	2.5	2.3	3.8	8.7	7.2	8.8	5.3	6.0	1.1	35.1
Manufacturing	8.9	10.5	21.5	4 1.0	27.3	25.6	25.5	49.4	62.6	231.4
Electricity, gas, water and waste services			2.7	4,5	3,4	2.0	4.2	6.9	6.6	27.5
Construction	5.5	6.8	10.6	22,9	12.5	15.0	17.2	28.0	36.7	132.4
Wholesale trade	6.5	8.2	13.7	28.3	18.6	15.7	21.3	31.1	34.7	149.8
Retail trade	33.4	53.0	58.1	144.5	87.1	91.3	115.2	126.9	103.9	668.9
Accommodation and food services	36.7	40.3	66.7	143.7	80.8	69.2	64.4	54.1	33.2	445.5
Transport, postal and warehousing	4,9	7.6	15.0	27.6	19.1	11.2	18.5	29.1	35.6	141.1

Total	Other services	Arts and recreation services	Health care and social assistance	Education and training	Public administration and safety	Administrative and support services	Professional, scientific and technical services	Rental, hiring and real estate services	Financial and insurance services	Information media and telecommunications	Transport, postal and warehousing	Accommodation and food services	Retail trade	Wholesale trade	Construction	Electricity, gas, water and waste services	Manufacturing	Mining	Agriculture, forestry and fishing		Total	Other services	Arts and recreation services	Health care and social assistance	Education and training	Public administration and safety	Administrative and support services	Professional, scientific and technical services	Rental, hiring and real estate services	Financial and insurance services	Information media and telecommunications
572.3	25,8	10.2	66.9	60.6	17.9	28.3	36.3	8.1	11.9	9.4	29,4	63,8	61.4	18.2	48.9	5.00	44.3	11.7	13.3		268.6		7.0	50.2	43.0	8.8	17.3	16.5	4.0	3.9	3.8
598.4	32.6	15.5	58.9	17.1	23.5	31.3	35.3	co . Co	16.4	12.4	37.7	72.5	95.2	19.4	49,6	7.0	39.2	15.0	11.2		279.8		7.4	50.8	10.9	11.0	16.0	16.3	4.7	4,9	රා දර
933.1	38.8	13.4	103.4	40.4	34.9	44.8	75,4	22.1	28.7	13.4	52,4	115,0	103.2	36.4	90.9	7.7	70.5	27.1	14.5		445.1	21.4	5.0	85.3	26.2	16.7	28.7	32.5	9.4	19.4	<u>ဌာ</u>
2,103.8	97.2	39.1	229.2	118.2	76.3	104.4	147.0	38.8	57.0	35.3	119.5	251.4	259,8	73,9	189,4	20,5	154.0	53.9	38.9	PERSONS	993.5	50.2	19,4	186.3	80.2	36.5	62.0	65.2	18.1	28.2	16.1
1,345.7	53.0	27.9	162.3	80.5	59.1	49.3	107.8	25.2	46.1	21.3	71.2	142.3	160.0	54.3	100.9	20.4	98.3	46.3	19.7		635.6	23.9	10.8	133,5	51.6	30.1	22.9	53.7	14.8	24.7	10.1
1,292.7	50.8	18.5	162.6	80.8	52.8	51.3	107.6	24.6	49.1	23.7	60.9	116.7	155.2	45.2	121.8	19.2	97.6	37.1	17.2		611.3	21.8	10.8	123.6	57.7	25.5	27.4	50.1	10.5	27.1	14.4
1,675.4	66.0	31.4	214.7	108.0	102.1	59.5	148.0	28.4	67.2	37.0	81.4	118.0	195.6	67.6	144.6	14.0	117.8	38.6	35.6		773.0	29.1	12.5	167.9	75.3	47.1	29.2	63.4	15.1	34.1	13.4
2,196.4	88,5	34,3	290,4	174.7	159.5	61.9	195.4	33.3	93.8	42.8	112.8	104.5	225.6	96.3	189.3	24.8	179.0	49.9	39.5		1,028.2	36.7	12.6	234.2	118.3	74.0	29.5	88.3	15.6	54.9	17.9
2,924.2	118.3	45.8	355.9	323.6	269.5	62.9	218.4	40,8	98,7	58.6	166.4	63.3	198.4	126.8	272.1	36.2	267.4	33.5	167.7		1,225.4	41.5	19.1	260.8	214.1	119.4	27.0	86.3	19.1	53.5	17.9
11,538.2	473.8	197,0	1,415.2	885.7	719.3	389.2	924.3	191.0	411.9	218.6	612.2	796.1	1,194.5	464.1	1,018.2	135.1	914.1	259.4	318,5		5,267.0	203.2	85.2	1,106.2	597.2	332.5	198.1	407.1	93.1	222.5	89,8

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SCHEDULE 2 pog /

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Table 2 PERSONS WHO WERE WORKING AT FEBRUARY 2013, Duration and change in employer/business-By state or territory of usual residence

3 and under 6 months 77.1 71.4 60.7 20.8 36.2 5.7 4.3 6 and under 12 months 141.4 96.0 95.0 37.6 53.2 7.6 4.9 One year or more 1,370.5 1,089.0 844.0 307.9 449.6 88.8 43.5 1 and under 2 years 178.6 157.4 136.7 45.3 88.7 10.4 7.3 2 and under 3 years 205.4 153.2 118.8 40.3 63.9 10.9 7.3	months 77.1 71.4 60.7 20.8 36.2 5.7 months 141.4 96.0 95.0 37.6 53.2 7.6 1,370.5 1,089.0 844.0 307.9 449.6 88.8 178.6 157.4 136.7 45.3 88.7 10.4	months 77.1 71.4 60.7 20.8 36.2 5.7 months 141.4 96.0 95.0 37.6 53.2 7.6 1,370.5 1,089.0 844.0 307.9 449.6 88.8	77.1 71.4 60.7 20.8 36.2 5.7 141.4 96.0 95.0 37.6 53.2 7.6	77.1 71.4 60.7 20.8 36.2 5.7		5.6	18.9	FEMALES	Total 1,985.5 1,563.1 1,253.0 431.9 740.1 125.1 65.4	6.6	Changed employer/business 161.8 142.4 135.8 44.0 91.3 11.1 7.9		s 328.5 259.5 173.5 71.6 78.1 22.1	141.3 21.2	285.0 229.4 181.2 56.1 105.8 18.9	210.3 158.0 152.8 40.3 85.8 13.2	12.7	107.5	7.1	4.3	6.2	17.6	Duration with employer/business at February 2013	MALES	000	NSW Vic. Qld SA WA Tas. NT
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									65.4		1 7.9	5,8													000	N.
					3.7 279.8	5.0 268.6			107.1 6,271.2		10.5 604.7	10.4 739.7				14,7 681.4						19.2 1,110.3				ACT Aust.

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Total	Did not change employer/business	Changed employer/business	Whether changed employer/business in the last 12 months	20 years and over	10 and under 20 years	5 and under 10 years	3 and under 5 years	2 and under 3 years	1 and under 2 years	One year or more	6 and under 12 months	3 and under 6 months	Under 3 months	Under 12 months	Duration with employer/business at February 2013		Total	Did not change employer/business	Changed employer/business	Whether changed employer/business in the last 12 months	20 years and over	10 and under 20 years
3,644.9	317.2	287.6		394.8	596.5	716.6	537.7	415.7	378.8	3,040.1	292.0	165.5	147.3	604.8			1,659.4	163.0	125.9		141.8	268.0
2,893.7	260.3	253.8		291.3	463.9	545.7	438.0	311.2	329.5	2,379.6	204.4	154.7	155.0	514.1		PEJ	1,330.5	130.1	111.4		107.1	204.5
2,315.3	225.0	236.5		217.2	335.9	408.1	326,4	271.7	294.6	1,853.8	196.6	129.5	135.4	461.5		PERSONS	1,062.3	117.6	100.7		80.6	162.4
814.4	74.7	77.8		95.0	127.7	164.0	105.7	80.7	88.7	661.8	71.4	47.1	34.1	152.6			382.5	40.8	33.9		39.2	56.1
1,310.1	117.8	151.3		109.9	145.9	254.2	186.7	149.7	194.6	1,041.0	122.3	74.0	72.7	269.1			570.0	60.4	60.0		35.3	67.8
232.8	17.1	19.5		32.0	38.8	44.7	33.5	24.1	23.1	196.3	14.8	10.0	11.7	36.5			107.7	10.5	8.4		12.7	16.7
121.7	14.5	13.5		9.5	15.8	22.6	16.7	13.6	15.3	93.7	12.8	8.5	6.7	28.0			56.3	7.2	5.6		3.7	7.9
205.3	17.7	19.5		19.1	30.9	40.4	30.5	26.1	21.1	168.1	18.8	9.0	9.3	37.2			98.2	9.0	9.0		8.7	13.1
11,538.2	1,044.2	1,059.6		1,168.8	1,755.4	2,196.4	1,675.4	1,292.7	1,345.7	9,434.4	933.1	598.4	572.3	2,103.8			5,267.0	538.7	454.9		429.1	796,4

268.0 204.5

SCHEDULE 2 PARTY