



Meat Industry Association
of New Zealand (Inc)

2005 Membership Survey on

The Impacts of the Holidays Act 2003

INTRODUCTION

In recent years, a general consensus has emerged that New Zealand needs to perform better in terms of per worker productivity if we are to achieve a wealthier New Zealand with a higher-wage economy. This consensus cuts across government, employers and trade unions – although at times these broad groupings hold different views as to how to achieve improvements in our workplace productivity levels.

While there is no ‘silver bullet’ that single-handedly boost workplace productivity, the MIA’s view is that keeping employment relationships as simple, yet fair, is an important way to ensure workplace resources are effectively targeting towards improving productivity. In essence, if New Zealand is serious about improving per worker productivity, any initiative that will add to the cost and complexity of employing people (however small the increased cost may appear) needs to be robustly assessed to ensure that any increase in the administrative burden on employers is counterbalanced by a well-understood net gain.

The Holidays Act 2003 provides an interesting example of the importance of this principle. The Act introduced the concept of ‘relevant daily pay’ – which has meant that workers taking sick leave are no longer paid an agreed rate, but are entitled to receive the productivity bonuses etc. that they would have received had they worked that day.

For a large proportion of New Zealanders (e.g., salaried and/or ‘9-to-5, Monday to Friday’ workers), the introduction of ‘relevant daily pay’ made little change in terms of the burden on employers. However, as the results of this survey demonstrate, the quantifiable direct cost of this one legislative change to the meat industry was \$17million in the first year under the Holidays Act. What is more, this excludes the unquantifiable cost in terms of loss of productivity etc. arising due to dramatic increases in absenteeism.

To put this cost into context, the entire profit for the industry trends at between 1% and 3% of turnover (or between \$50million and \$150million). \$17 million is a huge share of this profit when one considers that it was lost as the result of a single policy decision that, to many people, may have seemed relatively innocuous.

RESULTS OF THE MIA 2005 HOLIDAYS ACT SURVEY

BACKGROUND

In late 2004, the Minister of Labour tabled legislation – the Holidays Act Amendment Bill – in response to concerns around ‘unintended consequences’ of the new Holidays Act. To objectively support out submissions to the Transport and Industrial Relations Select Committee on Amendment Bill, MIA ran a survey of our Members regarding the impact of Holidays Act 2003 on payroll. Members were asked to provide data on the total cost of payroll; cost of public holiday pay; cost and incidence of sick leave; and cost and incidence of bereavement leave. They were asked to provide actual data for the year ending March 2004 (i.e., before the Act took effect) and estimated data for the year ending March 2005.

In mid-2005, the MIA decided to conduct a follow-up survey asking the same questions to test whether these estimated costs for the year ending March 2005 held true. This following sets out the key results of that follow-up survey.

When considering this results, it is important to appreciate the highly competitive nature of the industry, and the impact this has on company returns. If one were to look solely at the industry’s \$5 billion annual turnover, the increases identified, while substantial, would seem relatively small. However, due to a number of factors - such as domestic competition for livestock, international competition for market share, and the impact of climatic factors and fluctuating global commodity prices - meat processing companies are only able to extract a very modest level of profit (between 1 and 3% of turnover).

Within this context, the \$17 million increase in payroll directly and solely attributable to the Holidays Act 2003 and the introduction of ‘relevant daily pay’ is a very significant burden to bear as a consequence of a single policy decision.

Level of Response

Responses were received from all Association processor members with the exception of one independent processor. Collectively, the level of response represents virtually all of the meat production attributable to MIA members, who collectively account for 100% of New Zealand beef exports and 99% of New Zealand’s sheepmeat exports.

Adjustment of Data

To assist in making the data for the years ending March 2005 and 2004 more comparable, the raw data received was adjusted to suppose that employee numbers in the baseline year ending March 2004 year (21,738 staff) are maintained over the entire period surveyed.

Other factors may also impact on the direct comparability of the two sets of data. For example, the total cost of payroll will be affected by wage increases and increased production (as the ‘piece rate’ payments would increase). No adjustments to data have been made to try to account for such factors.

SUMMARY OF RESULTS

The table below shows the increases in the cost of public holiday pay, sick leave and bereavement leave. All data in the table has been adjusted to reflect a workforce of 21,738 employees, and the italicised column represents the estimates provided in response to the MIA's initial survey.

	2003/04	<i>2004/05 Estimates</i>	2004/05	Increase
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Public Holidays	17.9	<i>33.1</i>	28.1	10.2
Sick Leave	5.4	<i>15.3</i>	11.7	6.3
Bereavement Leave	0.38	<i>0.93</i>	1.04	0.66
Total	23.68	<i>49.33</i>	40.84	17.16

The (employee number-adjusted) increase of \$17.16 million for the year ending March 2005 represents a 2.65% increase on total payroll for the year ending March 2004.

In addition to this, the introduction of 'relevant daily pay' also impacts on the value of accrued sick leave. The (employee number-adjusted) contingent liability arising due to accrued sick leave has risen by around 71% to \$28 million in the year ending March 2005. This is just under 4% of the adjusted total payroll for that period.

The individual figures on which this summary is based are discussed in more detail below.

TOTAL INCREASE IN PAYROLL

Raw Data

Total cost of respondent's payroll for the year ending March 2005 was roughly \$732 million.

This is up \$84 million, around 13%, on the total payroll for the year ending March 2004 (\$648 million).

Adjusted Data

When this data is adjusted to assume identical employee numbers as those in the 2004 year, the total cost of payroll becomes \$708 million – an increase of \$60.7 million or 9.4%.

INCREASED COST OF EMPLOYEE ENTITLEMENTS UNDER HOLIDAYS ACT

The extent to which this 9.4% increase in payroll can be attributed solely to the impacts of the Holidays Act 2003 is considered below.

Public Holidays

Raw Data

The cost of paying employees for public holidays (whether worked or not) increased 62% in the year ending March 2005, from \$17.9 million in 2004 to \$29 million in 2005.

Note that this increase comes despite the fact that Anzac Day fell on a Sunday in the 2005 year, thus effectively reducing the number of public holidays from 11 to 10, and despite the fact that many plants chose not to operate on public holidays to avoid incurring additional labour costs.

Adjusted Data

When the total cost of public holidays for the year ending March 2005 is adjusted for employee numbers, it becomes \$28.1 million – up over \$10.8 million (or 63%).

Sick Leave

Raw Data

In the year ending March 2004, the total cost of sick pay to respondents was \$5.4 million. In the year ending March 2005 this jumps to \$12 million – an increase of 122%.

Over this period there was also a 39% increase in the number of sick days taken from 58,600 in 2004 to 81,400 in 2005. This is itself largely a result of the Holidays Act due to the ‘relevant daily pay’ concept meaning that workers are financially no worse off for taking sick leave. In part the increased incidence of sick leave will be due to genuinely ill workers taking leave when they may not have previously. Equally, however, the ‘relevant daily pay’ concept has removed a key disincentive to abusing sick leave entitlements.

If one were to exclude the effects of the increased incidence of sick leave by comparing the average ‘per sick day’ cost of sick leave in 2004 and 2005, there is a significant cost impact as a result of the ‘relevant daily pay’ concept. In 2004, the average cost of paying out a sick day was \$92.50. In 2005, this had risen to \$148 – up 60%.

Adjusted Data

When the total cost of sick leave for the year ending March 2005 is adjusted for employee numbers, it becomes \$11.7 million – up over \$6.3 million (or 115%).

The number of sick days taken would reduce to 78,759 – an increase of 18,232 or 30%.

The average ‘per sick day’ cost of sick pay does not need to be adjusted for employee numbers.

Bereavement Leave

Raw Data

The total cost of bereavement leave in the year ending March 2005 rose to \$1,072,700 from \$380,500 in 2004. This increase of \$692,200 represents a 182% jump in the cost of bereavement leave in 12 months.

As with sick leave, a portion of this increase can be attributed to ‘relevant daily pay’ providing removing a disincentive to abuse bereavement leave entitlements. The year ending March 2004 saw 4,496 days

taken as bereavement leave. This compares to 7,405 days taken as bereavement leave in the year ending March 2005. This is an increase of 2909 days, or a 65% jump.

However, as with sick leave, this effect of removing the disincentive can be filtered out by comparing the average cost of a bereavement leave day in 2004 and 2005. The average was \$84 in 2004, compared to \$145 in 2005 - a jump of 73%.

Adjusted Data

When the incidence of taking sick leave is adjusted for employee numbers, the figure to the year ending March 2005 becomes 7168 days taken as bereavement leave – an increase of 2672 (or 59%) over that for year ending March 2004.

The total cost of bereavement leave in the year ending March 2005, once adjusted for employee numbers, would be \$1,038,400 – a 173% increase.

The average 'per day taken' cost of bereavement leave does not need to be adjusted for employee numbers.

Combined Cost of Increased Entitlements

The survey has highlighted that the increased employee entitlements under the Holidays Act are quite dramatic. The adjusted cost of public holiday pay is up 62% even though Anzac Day fell on a Sunday in the relevant period and many plants closed on other public holidays. The adjusted cost of sick leave is up 115% with the average sick day payment rising 60%. The cost of bereavement leave has leapt 173%, with the average payment for a day's bereavement leave now \$145 - up from \$84 in 2004.

When one looks at their collective impact as a proportion of total payroll costs, the combined adjusted increase in the cost of public holiday pay, sick leave and bereavement leave in the year ending March 2005 was \$17.16 million.

This is a substantial ongoing liability to bear as a result of a single policy decision made at Select Committee. What is more, unlike other factors that contribute to increased payroll cost (e.g., higher production throughput and higher wages being paid to better skilled staff) its cost comes with little tangible benefit to industry and moves only to erode both the industry's international competitiveness and the economic viability of continuing to conduct 'value-added' processing in New Zealand.

As a final point, the financial impact of 'relevant daily pay' was less than that initially estimated by our Members, which is in part due to the industry successfully implementing strategies to minimise its exposure to the potential increased costs associated with the Holidays Act. Such strategies have included closing on public holidays, and applying contractually agreed leave entitlements more conservatively where they are over and above the strict legal requirements embodied in the Holidays Act.

OTHER COSTS ASSOCIATION WITH THE HOLIDAYS ACT

Not all of the financial impacts of the Holidays Act are directly reflected in the total cost of payroll.

The contingent cost of accrued sick leave, for example, increases in accordance with the notional value of each sick day. The total contingent liability for accrued sick leave in the year ending March 2005 was \$28.9 million – up 76% from the \$16.4 million contingent liability accrued as at March 2004. [Adjusted for employee numbers this becomes a \$28 million contingent liability up 71% on the previous year.]. It

should be noted, however, that there are significant gaps in the data submitted on the sick leave accrued (days/cost) and thus the contingent liability figure stated above likely understates the situation.

The costs of disruption associated with higher incidence of sick and bereavement leave, and management time managing absenteeism is another example, with a number of plants reporting their individual costs of disruption as amounting to hundreds of thousands of dollars, incurred over periods of weeks rather than months. This descriptor also applies to revenue lost due to down-grading of product, loss of production, specification changes and other production losses that would not have occurred but for absenteeism. Some respondents indicated that their estimated costs did not include the cost of sick pay or labour costs for replacement staff. Collectively, the cost attributed to disruption is \$3.24 million.

Examples of these associated costs cited by Members included:

- Relevant daily pay ('RDP') now paid on non-work injuries for first week - 43% increase
- Payroll Software changes; Payroll Administration costs
- 10% additional administration time
- Unspecified losses due to manning shortages, administration and management time
- Disputes over interpretation
- Restructuring of operations prior to change to Act
- Day in lieu costs increased due to RDP; shift leave component in RDP is also extra