

To: Parliament of Victoria, Economic, Education, Jobs and Skills Committee

Ref: Inquiry into Portability of Long Service Leave Entitlements

Submission from the Timber Merchants Association (Vic) (TMA)

We provide below our submission with regards to the issue of portability of Long Service Leave Entitlements, referencing relevant Terms of Reference as set out at www.parliament.vic.gov.au/eejsc.

About the TMA

The TMA is a federally registered organisation under the *Fair Work Act 2009* (Cth). As the industry specific representative for the broader community of over 450 timber merchants, manufacturers and hardware stores, with nearly 15,000 employees, it is our position that we cannot support an initiative that will see the creation of a portable long service leave entitlement for the Victorian workers in our particular sector.

We surveyed our members in relation to this issue, and our responses to the terms of reference below are informed by the comments of our members. Over half our members responded to our survey.

Terms of reference a)i) The objectives of portable long service leave schemes.

A portable long service leave scheme has, in the past, been designed to recognise the cyclical and transient nature of employment in specific industries, such as building and construction, or contract cleaning. The building and construction industry, in particular, is characterised by a project based approach to work, such that even if an employee were inclined to remain loyal to one employer, they often don't have that opportunity, through no fault of their own. Accordingly, portable long service leave schemes were designed to give highly mobile employees access to an entitlement despite the lack of continuous service as defined in conventional long service leave legislation.

By comparison, conventional long service leave has, over time, been justified by several different rationales. These included:

1. Providing employees with an extended leave of absence in order to renew their energies;
2. Rewarding long and faithful service with an employer; and
3. Reducing labour turnover.

A universal Victorian portable long service leave scheme would, by definition, undermine rationales 2 and 3 mentioned above.

If long service leave becomes leave entitlement that accrues regardless of the identity of the employer, then it is no longer a reward for long and faithful service to one employer, and nor would it play any role in reducing labour turnover.

With respect to rationale 1 above, an employee who changes employer close to a vesting time for their leave will leave their new employer with the requirement to potentially cover an extended period of absence without having had the benefit of the service to begin with.

The impost on businesses of long service leave is not limited to the cost of the leave. For small businesses in particular, the issue becomes one of 'who will do the work'. This could potentially necessitate employment of extra staff on a temporary basis, and our members' experience is that temporary work is not attractive work for valuable and experienced employees.

Terms of reference a)ii) which sectors, industries or occupations may benefit from such schemes

Characteristics of the timber merchant, manufacturing and hardware sectors

Stability of employees: In the merchant and hardware sector, employment and employee retention is relatively stable, with staff turnover quite low. In fact in our survey, 70% of businesses reported that more than 15% of their staff have more than 7 years of service. The sector has a very stable work force with less than 15% staff turnover year on year for over 88% of businesses in the sector. Note the majority of respondents have fewer than 25 employees.

Staff recognition: as there is a high retention of staff in the sector most businesses feel that the employee should be recognised for their loyalty to their business nearly 65% of businesses support the view that LSL is recognition for loyal service to the employer and is a reward for that service.

Based on the arguments above – that portable long service leave schemes are especially suitable for industries where employees do not have the opportunity to provide the requisite service to earn leave –this industry sector in particular is not a good candidate for a portable long service leave scheme.

Terms of reference a)viii) the capacity to operate such schemes within or across jurisdictions, including recognition of service

1. Competitiveness: A dynamic market place is driving the need to change business models to more competitive and sustainable ones. With international competitors not constrained by the legislated entitlements of the Victorian workplace any change that will lead to a cost increase, or difficulty in reliably assessing costs will disadvantage local businesses in being able to build sustainable and competitive businesses.

2. Consistency: LSL portability is of value to a sector that has a high level of contracted employees and the work is done across projects. This is not the case in the products manufacturing and distribution sectors such as is the case with Timber merchants and hardware stores which rely on employee consistency and loyalty to deliver the basic business proposition for the businesses within the sector. The portability of LSL will potentially create an environment of inconsistency on a number of levels :
 - i. Loyalty of the employee to the business
 - ii. Payment and support for employees that change employers and requirements to meet the employment guarantee requirements.
 - iii. Develop a level of mistrust between the employee and employer as to when LSL is taken.
3. Management: If a portable LSL is developed how and who manages this so that it is to the advantage of the employee and without detriment to the employer. Examples include CoInvest in VIC and similar in NSW and QLD.

At the end of the day an LSL should be regarded as a reward to an employee for their loyalty to the employer and in an environment of relative employment stability a portable LSL will only create a level of distrust in the employer/employee relationship and lead to aggravation of the capability of the employer to respond to the competitive market driven environment.

For many of the 450 Victorian small to medium sized businesses we act in the interest of many influences are increasing the challenge of creating sustainable and thriving businesses.

- Trade agreements allowing international providers to offer products that have been produced without the cost, manufacturing and quality standards held to local products.
- A digital environment that is driving local manufacturers and retailers to change their business models so as to be able to supply locally manufactured and sourced products in a more customer friendly, responsive and sustainable manner.
- A consumer base that is increasingly fickle and less predictable yet more demanding in expectations creating a dynamic environment that requires positive support from Government to strengthen and maintain a sustainable small to medium sized business sector – consistency of product performance, consistency of employment standards etc.

In a sector that is confronting so many issues and in need of a stable work force a portable LSL will not add value, just increase a level of distrust.