1. Regulatory Impact Statement on proposed new public holidays in Victoria

Department of Economic Development, Jobs, Transport and Resources

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Executive summary

Key points

* The Victorian Government made a commitment in its 2014 State election platform to declare Easter Sunday and the Friday before the AFL Grand Final as public holidays.
* The *Subordinate Legislation Act 1994* requires that a Regulatory Impact Statement (RIS) be prepared to consider the impacts of the Government’s policy.
* This RIS assesses the effects of implementing the Government’s commitment in terms of the benefits and costs to the Victorian community as a whole.
* As required by the *Subordinate Legislation Act 1994*, this RIS also considers the impacts of some alternative ways of providing public holidays which are consistent with the principles contained in the Government’s 2014 State election platform.
* Estimating the benefits and costs of the proposed new public holidays is difficult given the potential for varied behavioural responses of different individuals, businesses and groups throughout Victoria and the challenges of aggregating these potentially diverse effects.
* The RIS considers the net impacts of the Government’s commitment by comparing the cost of foregone economic activity as a result of the new public holidays against the value of individual leisure time.
* The proposed public holidays would provide an estimated additional 1.5 million days off work across Victoria annually.
* The benefit of this additional leisure time equates to between $156 million and $312 million annually (excluding any benefits associated with coordinated leisure time).
* Other benefits relate to the potential for increased tourism and related expenditure.
* Tourism Victoria has indicated that increased travel by Melburnians to regional Victoria during a new long weekend has the potential to increase tourism expenditure in regional Victoria by between $17 million and $51 million annually.
* Studies indicate that a complementary sports-related event could potentially contribute between $7 million and $49 million annually to the Victorian economy.
* The lost production (or economic cost) from the new public holidays is estimated to be between $717 million and $898 million annually.
* The new public holidays would also result in increased wage payments of between $252 million and $286 million annually to those people who work on the public holidays. This amount represents a transfer from employers to employees, rather than a net impact on the Victorian economy.
* Overall, the estimated costs of the new public holidays outweigh the quantified benefits; however, there is the potential for wider benefits to accrue to families and the broader community associated with coordinated leisure time. The benefits of coordinated leisure time have not been estimated in this RIS due to a lack of available, robust information on their potential size in this context.
* This RIS is seeking the community’s feedback on the proposed Easter Sunday and the Friday before the AFL Grand Final public holidays and their supporting analysis. It is also seeking feedback on the likelihood that the community would sufficiently value the additional coordinated leisure time created by the new public holidays to support the overall proposal.

Introduction

The Department of Economic Development, Jobs, Transport and Resources (the Department) has engaged PricewaterhouseCoopers Australia (PwC) to prepare a Regulatory Impact Statement (RIS) for the proposed gazettal of two new public holidays under the *Public Holidays Act 1993* (the Act)*.* Under the Act, Victoria currently has 11 public holidays. In its 2014 State election platform, the Government made a commitment to declare two additional public holidays:

* Easter Sunday
* the Friday before the Australian Football League (AFL) Grand Final.

In the same platform, the Government outlined the following principles on which this commitment was based:

* providing fair pay to those working on Easter Sunday
* increasing opportunities for Victorians to enjoy coordinated leisure time
* enhancing the important role performed by public holidays on significant religious and state occasions in uniting the community.[[1]](#footnote-2)

The *Subordinate Legislation Act 1994* requires that a RIS be prepared to consider the impacts of the Government’s policy. It also requires that the impacts of other means of achieving the Government’s objectives are considered.

This RIS considers the range of impacts that are generated by public holidays and estimates the net impacts of the Government’s proposal and the alternatives considered.

This RIS is designed to facilitate consultation with the community and to inform the Government in its official notification in the Victorian Government Gazette that Easter Sunday and the Friday before the AFL Grand Final are public holidays in Victoria.

The RIS has been informed by consultation with business, business associations, employee representatives, community groups and government agencies.

Impacts of public holidays

1. Public holidays generate a range of impacts on the Victorian community and economy. These include:

* **Increased wages for employees –** Increased wages are paid to those employees who work on public holidays, with penalty rates often providing an additional 50 per cent to 150 per cent loading beyond the rate that would otherwise be applied on those days.
* **Increased labour costs for employers** – While increased wages provide a benefit to employees, those employers that continue to operate on a public holiday are subject to increased labour costs. These costs are broadly equivalent to the increased wages received by employees. This impact tends to be concentrated in those industries that operate across the entire week, such as retail, hospitality, accommodation and essential emergency and community services. Some employers may be able to pass on a portion of these labour costs to customers through surcharges.
* **Additional leisure time** – Employees who are not required to work on the public holiday receive additional leisure time to spend with their family and friends. Where a public holiday falls on a day of significance for the community, such as Easter Sunday, it further provides benefits in terms of bringing the broader community together to observe the special occasion.

For those employed on casual arrangements, this additional leisure time would result in reduced income as these individuals are only paid for those days that they work.

* **Increased tourism and enhanced sporting reputation** – Public holidays can provide opportunities to increase tourism. This provides potential opportunities to Victorian employers engaged in associated industries such as retail, hospitality and accommodation, though this is likely to be at least partially offset by reduced expenditure elsewhere.
* **Reduced economic activity** – For those employers who choose not to operate on a public holiday, there is a loss of economic activity or output(as these employers operate for fewer days in the year than they would otherwise). This effect leads to reduced gross state product (GSP) for Victoria.

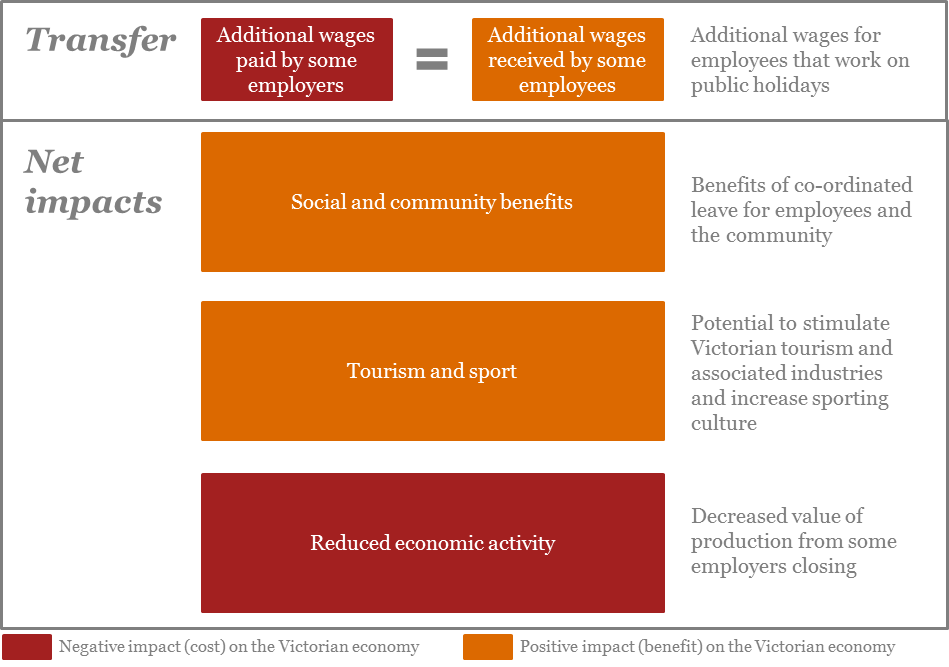
Approach to assessing the impacts

1. An important distinction relates to the nature of the impacts of public holidays. There are two distinct types of impacts:

* **Transfers** relate to the financial transfers from one group to another in the economy, such as the payment of penalty wage rates by employers to employees. These transfers relate to distributional impacts only. In themselves, they have no net impact on the Victorian economy. While this transfer effect is relevant for both public holidays, it is most relevant for the Friday before the AFL Grand Final public holiday.
* **Net impacts** refer to those impacts that have an overall effect on the Victorian community, such as lost production, output and economic activity given there would be fewer working days in a year. This is particularly relevant for the proposed public holiday on the Friday before the AFL Grand Final as it is expected that more employers would normally operate on a Friday compared with Easter Sunday.

1. Figure 1 illustrates which of the impacts discussed above falls within each category.

Figure 1: Potential impacts of the options

Source: PwC

Alternatives considered

As required by the *Subordinate Legislation Act 1994*, this RIS considers the impacts of some alternative ways of providing additional public holidays which are consistent with the relevant principles contained in the Government’s 2014 State election platform.

The alternative approaches considered are:

* Option 1: Introduction of Easter Sunday and the Friday before the AFL Grand Final public holidays from 2015 (the Government’s commitment)[[2]](#footnote-3)
* Option 2: Introduction of Easter Sunday from 2015 and delayed implementation of the Friday before the AFL Grand Final holiday until 2016
* Option 3: Transfer of public holiday status from the Saturday before Easter Sunday to Easter Sunday, in addition to implementation of the Friday before the AFL Grand Final public holiday.

These options are compared against a base case of no changes to existing public holidays.

Options 2 and 3 reflect variations of the Government’s election commitment (option 1) but are designed to result in lower costs to the Victorian economy.

The alternatives considered in this RIS were provided by the Department. Other possible alternatives were excluded from the analysis based on the advice of the Department that they were not in line with the Government’s objectives. Further discussion of these alternatives is provided in Section 3.1.

Assessing the options

The Government’s commitment and the alternative options have been assessed using information provided by stakeholders and other publicly available information. Where there is sufficient data available, the RIS provides quantitative estimates of the impacts.

While the costs of foregone economic activity and the benefits of increased leisure time have been measured, the wider benefits which can accrue to families and the broader community have not been quantified.

The quantified impacts have been split into those that reflect a transfer between employers and employees and those that are expected to result in a net impact on the Victorian economy.

Distributional impacts (wage payments)

1. Distributional impacts relate to *additional* wages paid by employers to employees due to public holiday penalty rates.

The level of wage transfers that occurs under each option differs depending on the number of additional public holidays created, the date of the new public holidays’ implementation and the days of the week on which the holiday falls. Table 1 provides a summary of the estimated wage transfers associated with each option.

The analysis indicates that the Government’s commitment (option 1) would result in an annualised increase in wage payments of between **$252 million** and **$286 million**. This amount reflects monies for:

* those employees that would work on the proposed public holidays and receive a financial benefit
* those employers that continue to operate on the public holidays and now incur increased labour costs of an equivalent amount (to the financial benefit received by employees).

1. Of the options considered, option 3 would result in the smallest wage transfer because it would create only one additional public holiday (as the Easter Sunday public holiday would replace the existing Saturday before Easter Sunday public holiday). Option 2 has slightly smaller wage transfers than option 1 (the Government’s commitment) as it would delay the implementation of the Friday before the AFL Grand Final public holiday by one year.

Table 1: Estimated transfer impacts of the options

|  |  |  |
| --- | --- | --- |
| **Option** | **Additional wage transfers, annualised $m** | |
| **Low estimate** | **High estimate** |
| 1 | 252 | 286 |
| 2 | 219 | 247 |
| 3 | 117 | 147 |

Source: PwC analysis. Annualised figures are averaged over 10 years.

To the extent that employers (businesses, not-for-profits and the government sector) factor these additional wage costs into future wage agreements in the form of lower than otherwise wage offers, it is possible that some employers may be able to reduce the size of the wage transfers in the future.

Further, while employers bear the additional wage costs in the first instance, it is possible that some of these wage costs may be passed onto consumers in the form of higher prices for goods and services.

Benefits of proposed public holidays

The economic analysis needs to consider the total impact of the proposed public holidays on Victoria, of which there are a series of potential benefits and costs. The potential benefits are discussed below.

Benefits to the community

1. The social and cultural benefits of the options are enjoyed by the Victorian community in the form of additional leisure time.
2. Our analysis estimates that this equates to an additional 1.5 million days off for Victorians collectively. The potential value of this additional leisure time is estimated at between **$156 million** and **$312 million** annually.
3. These values relate to individual leisure time only. Including the additional benefits associated with the provision of coordinated leisure time associated with public holidays would further increase the benefits. In considering the benefits of the new public holidays, readers are asked to consider the extent to which they will derive additional benefits from having coordinated leisure time with their family and friends.

Benefits to business and the economy

The two new public holidays are expected to increase tourism and related expenditure. This, however, would be at least partly offset by the additional wage costs incurred by those employers on public holidays. Further, it is likely that the additional expenditure by consumers on these days is partly offset by reduced consumption across the rest of the year.

The analysis has considered two main drivers of increased tourism from public holidays. These relate to enhancing Victoria’s reputation as a destination for sports fans and encouraging more visitors to Victoria’s regions.

* **Enhancing the sporting reputation of Victoria**. This occurs to the extent that the Friday before the AFL Grand Final public holiday provides the potential for the creation of complementary sporting or cultural events alongside the AFL Grand Final and the Grand Final Parade.

Due to uncertainty around the potential values associated with further events related to the AFL Grand Final, the size of this benefit has not been estimated.

There are however studies of the economic contribution of football and like events that provide context around the potential benefits to Victorian sports-related tourism. These studies suggest that such events could potentially contribute between **$7 million** and **$49 million** annually to the Victorian economy.

While some of the above studies relate to sporting events that are not connected with public holidays they have been included to illustrate the potential benefits that might occur.

* **Encouraging more visitors to Victoria’s regions**. Additional public holidays could also provide tourism-related benefits to regional Victoria and the businesses in those regions.

Several stakeholders noted that long weekends can provide opportunities for towns in regional Victoria to hold events and festivals to attract more visitors to the region. To the extent that additional events and festivals are established, then the benefits would likely be similar to those experienced during existing long weekend public holidays such as the Labour Day and Queen’s Birthday public holidays.

Tourism Victoria has indicated that a targeted campaign to encourage Melburnians to travel to the regions on a new long weekend could result in additional tourism expenditure in regional Victoria of between **$17 million** and **$51 million** annually.

These benefits, however, would be offset by reduced expenditure by Victorians in metropolitan areas. Therefore, they have not been treated as net economic benefits to Victoria for the purpose of this RIS. It is possible that capacity constraints could also limit the tourism benefits and that some Victorians will travel interstate on a long weekend.

Costs to the Victorian economy (reduced economic activity)

Additional public holidays will result in a cost to Victoria’s economic output in the form of foregone production.

Employers that do not operate on one or both of the proposed public holidays (but would otherwise have operated) would produce less output for the year. For these employers, it is estimated that up to 0.4 per cent of their annual output could be foregone for each proposed public holiday (for those employers that operate approximately 250 days per year):

* Some employers would not operate on the Friday before the AFL Grand Final, but would not be affected by Easter Sunday if that is not a normal working day for them.
* Other employers may be affected by both proposed public holidays, either by electing not to operate on those days or reducing their hours of operation.

Discussions with business groups indicated that the increase in labour costs due to paying additional penalty rates on these days would result in some businesses closing in order to avoid making a financial loss.

Table 2 provides estimates of the reduced economic activity in Victoria under each of the options considered. It shows that under option 1, the lost production resulting from the two additional public holidays would equate to between **$717 million** and **$898 million** on an annualised basis. Accurately estimating these costs is difficult given the potential for varied behavioural responses of different individuals, businesses and groups.

Splitting the cost estimates across the two proposed public holidays:

* The loss of economic output from the Easter Sunday public holiday is estimated to be between $37 million and $46 million annually.
* The loss of economic output from the Friday before the AFL Grand Final public holiday is estimated to be significantly higher at between $680 million and $852 million. This relatively higher cost is driven by the fact that a greater number of businesses would normally operate on a Friday compared with a Sunday.

Table 2: Estimated reduction in economic activity

|  |  |  |  |
| --- | --- | --- | --- |
| 1. **Option** | **Estimated annualised net cost impact ($m)** | | |
| **Low estimate** | **High estimate** |
| 1 | 717 | 898 |
| 2 | 656 | 822 |
| 3 | 679 | 852 |

Source: PwC analysis. Annualised figures are averaged over a 10 year analysis period.

The proposed policy

The Government’s proposed policy (option 1 – a public holiday on both Easter Sunday and the Friday before the AFL Grand Final) aligns most closely with the principles contained in its 2014 State election platform, specifically in terms of:

* providing fair pay to those working on Easter Sunday
* increasing opportunities for Victorians to enjoy coordinated leisure time
* acknowledging the important role performed by public holidays on significant religious and state occasions in uniting the community.

Option 1 also provides for the greatest opportunity to enhance Victoria’s reputation as a sporting state and to boost Victorian tourism.

The proposed policy is expected to affect Victorian employers and employees differently. Examples of the expected impacts on illustrative businesses and employees in selected industries are provided in Table 3.

Table 3: Illustrative impacts of the proposed policy on Victorian employers and employees in selected sectors

|  |  |  |
| --- | --- | --- |
| Illustrative employer\* | Expected impact of proposed new public holidays | |
| Easter Sunday | Friday before the AFL Grand Final |
| **Financial institution** | **No impact expected**  As financial institutions do not generally operate on Easter Sunday, there would be no impact on their operations or their employees. | **Lost day of production and employees receive an extra paid day off work**  This impact occurs because most financial institutions would not operate on the Friday public holiday.  It is possible that less than a full day’s production is lost as some employees may increase their output on the adjacent work days to partly offset the impact of not working on the Friday public holiday. |
| **Manufacturing business** | **No impact expected**  As manufacturers do not generally operate on Easter Sunday, there would be no impact on their operations or their employees. | **Lost day of production and employees receive an extra paid day off work**  This impact occurs because most manufacturing businesses would not operate on the Friday public holiday.  It is possible that less than a full day’s production is lost as some additional shifts and/or overtime may be rostered on the adjacent work days to partly offset the impact of not working on the Friday public holiday. |
| **Hospital** | **Some impact on output expected. Many employees receive additional wages or an extra paid day off**  Hospitals may offer reduced services on this day.  Staff required to work would be paid additional wages due to penalty rates, representing an increased cost for employers.  Others may be entitled to a paid day off. Casual employees no longer required to work that day receive an unpaid day off, representing reduced employment.  If the holiday falls on a rostered day off, many Victorian nurses are entitled to a day’s ordinary pay despite not working. | **Some impact to output expected. Many employees receive additional wages or an extra paid day off**  Hospitals are expected to experience broadly similar impacts on the Friday holiday as on the Easter Sunday holiday, though the magnitude of the impact would likely be greater on the Friday.  This is because:   * the normal level of services offered is greater on a Friday than on Easter Sunday, meaning a public holiday on a Friday creates a greater disruption to services * Public holiday penalty rates add in some cases about 150% to the Friday wage rate but only about 50% on top of the Sunday wage rate. This means the additional wages are greater on a Friday public holiday. |
| **Café** | **Some impact to output and to employment expected. Many employees receive additional wages or an extra paid day off**  Some cafés would close due to an Easter Sunday public holiday, representing approximately one day’s lost production. For casual café employees who would otherwise have worked, this represents lower employment. Permanent employees may get an extra paid day off.  Cafés that remain open would pay employees higher wages due to penalty rates, meaning increased income for some workers. Some employers could apply public holiday surcharges to help recoup some of these additional wage costs.  Some employers may be able to adjust their staffing mix toward juniors and permanent staff rather than casuals in an effort to limit wage cost increases. | **Some impact to output and to employment expected. Many employees receive additional wages or an extra paid day off**  Cafés would likely experience similar impacts on the Friday holiday as on the Easter Sunday holiday, though the magnitude of the impact is expected to be greater on the Friday because:   * many cafés would already close on Easter Sunday meaning output is already lower on that day under current arrangements. On a Friday however most cafés would be expected to be open * Public holiday penalty rates add in some cases about 150% to the Friday wage rate but only about 50% on top of the Sunday wage rate. This means the additional wages are greater on a Friday public holiday. |

Source: PwC. \*Some employers falling within these descriptions would experience different impacts. The expected impacts provided in the table are illustrative only.

Impacts of the proposed policy

The reduction in economic activity in Victoria under the proposed policy is estimated to be between **$717 million** and **$898 million** annually.

Individuals are expected to receive benefits in the form of additional leisure time of between **$156 million** and **$312 million** annually.

1. The proposed policy would also have a distributional impact with increased wage payments from employers to employees of between **$252 million** and **$286 million** annually.

The proposed policy could result in additional tourism associated with the coordination of complementary sporting or cultural events. Due to the uncertainty around the potential values associated with as-yet unknown future events, this RIS does not provide an estimate of this impact.

Further benefits could be enjoyed by Victorians in the form of coordinated leisure time. Due to the uncertainty surrounding the community’s valuation of these benefits, the RIS has not sought to quantify this potential value.

Given the estimated costs of between **$717 million** and **$898 million** annually, the community would need to place a value on the benefits of both Easter Sunday and the Friday before the AFL Grand Final public holidays in excess of **$405 million** to **$742 million** a year (in addition to the $156 million to $312 million in benefits discussed above) in order for the benefits to fully offset the estimated costs.

As a consultation document, this RIS is seeking the community’s feedback on the extent to which the quantified and non-quantified benefits associated with the proposed Easter Sunday and the Friday before the AFL Grand Final public holidays are likely to exceed this number.

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## Background

###### Overview

The Department of Economic Development, Jobs, Transport and Resources (the Department) has engaged PwC to prepare a Regulatory Impact Statement (RIS) for the proposed gazettal of two new public holidays under the *Public Holidays Act 1993.*

The *Subordinate Legislation Act 1994* requires that a RIS be prepared to consider the impacts of the Government’s policy. This RIS adheres to the *Victorian Guide to Regulation* (December 2014), which provides a step-by-step guide to preparing RISs.

###### Victorian Government policy commitment

1. The Victorian Government’s platform for the 2014 State election contained commitments to introduce two additional public holidays for Victoria. The proposed public holidays are:

* Easter Sunday
* the Friday before the Australian Football League (AFL) Grand Final.

###### Public Holidays Act 1993

1. The *Public Holidays Act 1993* (the Act) prescribes the public holidays to be observed in Victoria over the calendar year. Currently, there are 11 public holidays on the Victorian calendar as indicated in Table 4.

Table 4: Current Victorian public holidays

|  |  |  |
| --- | --- | --- |
|  | Holiday | Date/Day |
| 1 | New Year’s Day | 1 January, or the Monday after 1 January (New Year's Day) when New Year's Day is a Saturday or Sunday |
| 2 | Australia Day | 26 January, or the Monday after Australia Day when Australia Day is a Saturday or Sunday |
| 3 | Labour Day | The second Monday in March |
| 4 | Good Friday | Good Friday |
| 5 | The Saturday before Easter Sunday | The Saturday before Easter Sunday |
| 6 | Easter Monday | Easter Monday |
| 7 | ANZAC Day | 25 April |
| 8 | Queen’s Birthday | The second Monday in June |
| 9 | Melbourne Cup Day | The first Tuesday in November |
| 10 | Christmas Day | 25 December, or the Monday after Christmas Day when Christmas Day is a Saturday or the Tuesday after Christmas Day when Christmas Day is a Sunday |
| 11 | Boxing Day | 26 December, and the Monday after 26 December when Boxing Day is a Saturday or the Tuesday after Boxing Day when Boxing Day is a Sunday. |

Source: *Public Holidays Act 1993*

1. Section 7 of the Act provides that, in addition to the days specified in the Act, the Minister may appoint one or more public holidays by publishing a notice in the Government Gazette. The Act does not limit an additional public holiday provided by gazettal to a specific year or a number of years.

###### Context

* + - 1. Remuneration of Victorian employees on Easter Sunday

Under current arrangements, Easter Sunday is considered as a typical Sunday under the *Public Holidays Act 1993*. That is, it is not a public holiday. Employees required to work on Easter Sunday are therefore paid at the applicable Sunday penalty rates for their respective industries, which are lower than public holiday penalty rates.

In many cases, the difference between the Sunday and public holiday penalty rates are at least 50 per cent. This means Victorians required to work on Easter Sunday would gain an additional 50 per cent in pay for that day if it was a public holiday. Total employment in Victoria in industries where workers could be required to work on a Sunday is estimated to be close to 1.3 million individuals,[[3]](#footnote-4) which illustrates the number of Victorians who could potentially be affected by the changes.

* + - 1. Existing tourism in Victoria

Melbourne is popular among interstate and international visitors, while many of Victoria’s regions also attract high visitor numbers; the Great Ocean Road, the Grampians and the Mornington Peninsula each feature as common visiting spots in Victoria, among others. Estimates prepared by Tourism Research Australia suggest that tourism contributed $20.6 billion or almost 6 per cent of gross state product (GSP) in Victoria for 2013-14 and generated approximately 206,000 jobs in the state.[[4]](#footnote-5)

Particular emphasis is often placed on Victoria’s reputation as a destination for sports lovers. The Boxing Day Cricket Test, the Australian Open tennis tournament, the Australian Formula One Grand Prix, Melbourne Cup and the Spring Racing Carnival, and Australian Rules Football are examples of sporting fixtures that form a significant part of the Victorian sporting calendar, each attracting additional visitors from outside the state.

Both the Boxing Day Cricket Test and the Melbourne Cup occur on public holidays in Victoria, providing the community with increased opportunity to support these events.

* + - 1. Number of public holidays in other jurisdictions

The number of public holidays on the Victorian calendar currently sits at 11 (a list of Victorian public holidays under current arrangements is provided at Table 4).

This places Victoria below the G20 average, which is calculated at 12 public holidays per year. Table 5 provides a list of the number of national public holidays observed in selected jurisdictions.

Table 5: Number of national public holidays observed in selected jurisdictions

|  |  |
| --- | --- |
| Country/State | Number of national public holidays observed |
| United Kingdom | 8 |
| Canada, United States of America | 10 |
| France, Spain, Italy, Greece, the Netherlands | 11 |
| Singapore, South Africa | 14 |
| Japan, South Korea | 15 |

Source: Onrec, ‘UK has lowest number of public holidays within G20’, 3 March 2014. Available from http://www.onrec.com/news/statistics-and-trends/uk-has-lowest-number-of-public-holidays-within-g20

Different Australian states and territories also observe different numbers of public holidays as shown in Table 6.

Table 6: 2015 public holidays in other Australian states and territories

|  |  |  |
| --- | --- | --- |
| State/territory | Number of full-day public holidays observed by all constituents in 2015 | Other public holidays |
| Australian Capital Territory | 12 |  |
| New South Wales | 12 | Plus one bank holiday which applies to banks and certain financial institutions. |
| Northern Territory | 11 | Plus five ‘Show Day’ public holidays with only regional observance |
| Queensland | 12 |  |
| South Australia | 11 | Plus two half-day public holidays |
| Tasmania | 10 | Plus one additional public holiday which only applies under certain awards or registered agreements and to the state public service |
| Western Australia | 11 |  |

Source: Australian Government Fair Work Ombudsman, available from <http://www.fairwork.gov.au/leave/public-holidays/list-of-public-holidays>

###### Purpose of this RIS

The *Subordinate Legislation Act 1994* requires that a Regulatory Impact Statement (RIS) be prepared to consider the impacts of the Government’s policy.

1. The purpose of this RIS is to engage with the Victorian community regarding the potential impacts of the proposed changes to Victoria’s public holidays. This RIS has been developed to facilitate consultation with stakeholders by providing information and analysis so that all parties are well informed.
2. To do this, the RIS considers the following aspects:

* the policy context
* the Government’s objectives
* comparative analysis of the Government’s commitment and alternatives to achieve the Government’s objectives
* implementation and enforcement of the Government’s policy proposal.

1. These aspects are addressed in turn in the chapters to follow.

###### Stakeholder consultation undertaken for this RIS

1. In the development of this RIS we consulted with employers, employees, government and the community. A list of the consultations undertaken is provided below.

* Australian Football League (AFL)
* Australian Industry Group (AiGroup)
* Australian Nursing and Midwifery Federation
* Australian Retailers Association (ARA)
* Coles
* Department of Treasury and Finance (Victoria)
* Edwin’s café (Small Business - Restaurant and Catering Industry)
* Restaurant and Catering Association (RCA)
* Shop Distributive and Allied Employees’ Association (SDA)
* The Essoign Club (Small Business - Restaurant and Catering Industry)
* Tourism Victoria
* Victorian Council of Churches
* Victorian Council of Social Service
* Victorian Employers' Chamber of Commerce and Industry (VECCI)
* Victorian Trades Hall Council
* Woolworths.

## Objectives

The Government made a commitment in its 2014 State election platform to declare Easter Sunday and the Friday before the AFL Grand Final as public holidays.[[5]](#footnote-6)

In the same platform, the Government outlined some of the principles on which this commitment is based. These include:

providing fair pay to those working on Easter Sunday

increasing opportunities for Victorians to enjoy coordinated leisure time

enhancing the important role performed by public holidays on significant religious and state occasions in uniting the community.

For the purposes of the RIS these principles are taken to be objectives.

The platform also recognises the importance of boosting regional development, including tourism and of building on Victoria’s reputation as a great sporting state.

## Options

###### Overview

The *Subordinate Legislation Act 1994* requires that the impacts of other means of achieving the Government’s objectives are considered. In order to do that, the Department provided a set of alternative options for consideration which could meet the objectives of the proposed policy. We also conducted a series of public consultations and sought feedback from stakeholders who would potentially be affected.

1. These options are summarised in Table 7 and discussed in further detail in the following sections of this chapter.

Table 7: Summary of the options to be considered

|  |  |  |
| --- | --- | --- |
| Option | Description | Additional public holidays under the option |
| Option 1 | Easter Sunday and the Friday before the AFL Grand Final public holidays | Easter Sunday  The Friday before the AFL Grand Final |
| Option 2 | Easter Sunday and delayed implementation of the Friday before the AFL Grand Final until 2016 | Easter Sunday  The Friday before the AFL Grand Final (implementation delayed one year) |
| Option 3 | Transfer of public holiday status from the Saturday before Easter Sunday to Easter Sunday, in addition to implementation of a Friday before the AFL Grand Final holiday | Easter Sunday (the Saturday before Easter Sunday loses public holiday status)  The Friday before the AFL Grand Final |

Other options initially identified for potential consideration in the analysis include:

* Introduction of an Easter Sunday public holiday along with a new public holiday on the Monday before Melbourne Cup Day
* Implementation of the same public holidays as considered under option 1, but allowing for different observation of the Friday before the AFL Grand Final holiday between metropolitan and regional Victoria (as is the case with Melbourne Cup Day)
* Implementation of the same public holidays as considered under option 1, but removing an existing weekday public holiday from the calendar (such as the Queen’s Birthday holiday).

These alternatives were excluded from the analysis based on the advice of the Department that they were not in line with the Government’s objectives.

###### The status quo

To identify the impacts that may arise from the options considered, there must be a base scenario that the options are compared to. For this RIS, the base scenario is the ‘*status quo*’. That is, the current situation with no changes to existing public holidays.

Current arrangements in Victoria stipulate that Easter Sunday is treated as a typical Sunday in terms of business trading and applicable penalty rates for employees. The Friday before the AFL Grand Final is treated as a typical trading weekday under current arrangements. A list of existing public holidays in Victoria is provided in Table 4.

Each of the options to follow is assessed against the *status quo*.

###### Description of the options to be considered

* + - 1. Option 1: Easter Sunday and the Friday before the AFL Grand Final public holidays

The Victorian Government has committed to adding two new public holidays to the Victorian calendar, taking the count from 11 to 13. The two additional public holidays will fall on:

* Easter Sunday
* the Friday before the AFL Grand Final.

1. These new public holidays are considered to be observed beginning in 2015 for the purposes of this analysis.
   * + 1. Option 2: Easter Sunday and delayed implementation of the Friday before the AFL Grand Final

Option 2 considers the same additional public holidays as option 1: Easter Sunday and the Friday before the AFL Grand Final, but with delayed implementation of the Friday public holiday by one year to 2016. The Easter Sunday holiday would be observed beginning 2015.

* + - 1. Option 3: Transfer of public holiday status from the Saturday before Easter Sunday to Easter Sunday, in addition to implementation of the Friday before the AFL Grand Final holiday

This option considers the implementation of an Easter Sunday public holiday in Victoria and removing the Saturday before Easter Sunday’s public holiday status. It is assumed under this option that the new public holiday for the Friday before the AFL Grand Final is still implemented. The two public holidays will fall on:

* Easter Sunday (replacing the current Saturday before Easter Sunday public holiday)
* the Friday before the AFL Grand Final.

1. Option 3 thus creates only one additional public holiday in Victoria, taking the total to 12. All other options create two additional public holidays.

## Impacts of the considered options

###### Overview

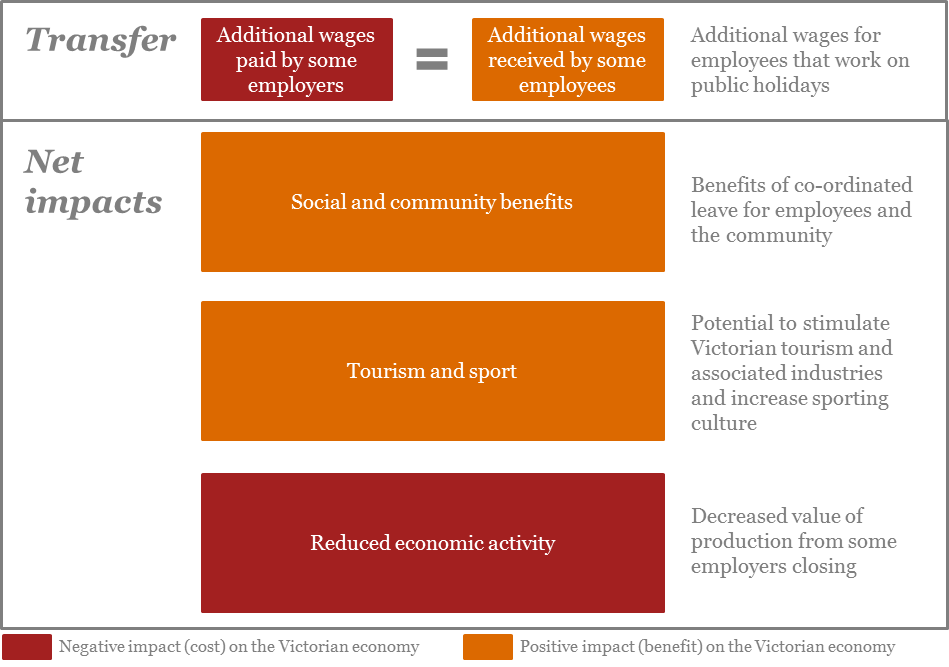
Public holidays generate a range of impacts on the Victorian community and economy.

An important distinction relates to the nature of the impacts of public holidays. There are two distinct types of impacts:

* **Transfers** relate to the financial transfers from one group to another in the economy, such as the payment of penalty wage rates by employers to employees. These transfers relate to distributional impacts only. In themselves, they have no net impact on the Victorian economy. While transfer effects are relevant for both public holidays, it is most relevant for the Friday before the AFL Grand Final public holiday.
* **Net impacts** refer to those impacts that have an overall effect on the Victorian community, such as the lost production, output and economic activity given there would be fewer working days in a year. This is particularly relevant for the proposed public holiday on the Friday before the AFL Grand Final as more employers would normally operate on a Friday compared with Easter Sunday.

An overview of the potential impacts considered in this report is shown in Figure 2. The following sections outline these impacts.

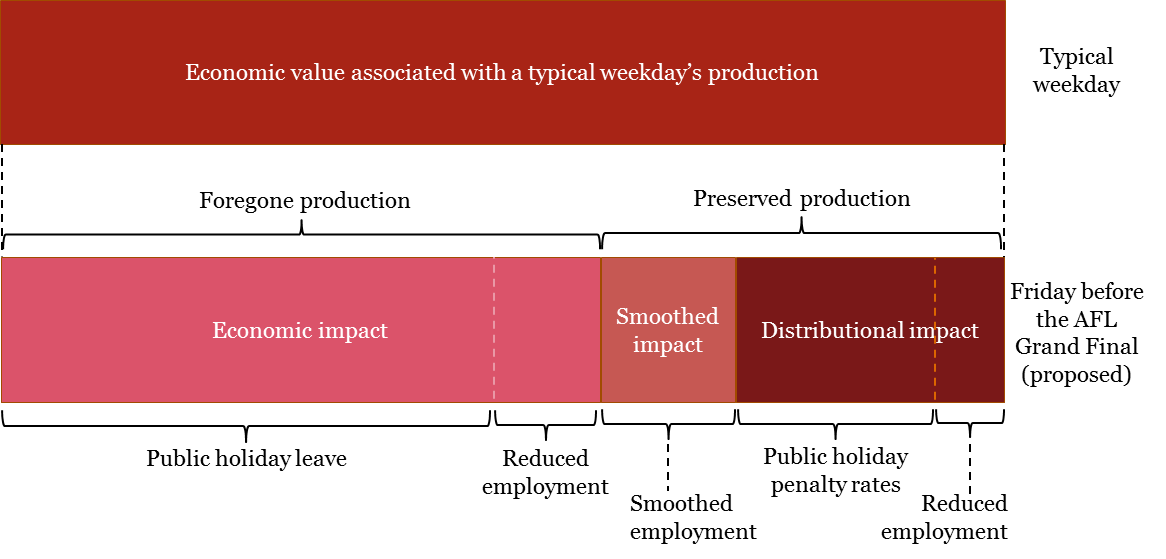
Figure 2: The potential impacts of changes to public holidays

Source: PwC

###### Our approach to measuring the impacts

1. The modelling approach adopted in this RIS to measure the impacts of additional public holidays is outlined in Figure 3. It provides an example related to measuring the impacts of the Friday before the AFL Grand Final public holiday.

Figure 3: Modelling approach adopted in this RIS

Source: PwC

1. As shown in Figure 3, there are several impacts to consider in relation to an additional public holiday:

* foregone production due to businesses and other employers not operating results in net economic costs for Victoria. This results in reduced employment for some casuals who would otherwise have worked on the day
* a portion of production is preserved due to:
  + some employers remaining open on the day
  + some employers that close are able to ‘smooth’ production across other days of the year to partly offset the lost production from the public holiday, meaning that some employees will work more on other days to make up for the additional public holiday
* for those employers that remain open, they will incur increased wage costs due to public holiday penalty rates
* some employers that remain open are expected to lower the level of employment on the day relative to a normal trading day, resulting in reduced employment overall (and reduced earnings for some casuals), although it is assumed that their sales and output on the day remain unchanged (for example, due to owners of small businesses working those days themselves, rather than using employees on the public holiday).

1. The approach adopted in this report is to first consider the transfers associated with additional wages. We then consider the net impacts, which include social and community benefits associated with additional leisure time and impacts on Victoria’s tourism and sporting culture. Finally, the net impacts resulting from reduced economic activity are assessed.

All figures presented are in 2015 Australian dollars.

Appendix A provides details of the methodology.

###### Transfer impacts – additional wages due to public holiday penalty rates

* + - 1. Overview

We have examined the impact of additional wage transfers due to public holiday penalty rates. Appendix B provides additional background information on the nature of these transfers and how they emerge.

Many stakeholders tend to focus on the higher wages that employees would receive as a result of working on a public holiday – that is, the focus is on the impact of penalty rates. In economic terms, these impacts are transfers where the increase in wages for employees is broadly matched by an increase in the costs to employers.

Given that the first stated objective of the Government in relation to this proposal is to ‘provide fair pay to those working on Easter Sunday’ and the readers’ expectations for this analysis, this RIS discusses first the distributional impacts of the options, followed by the overall economic impacts of the options on Victoria.

* + - 1. Transfer impacts of the options

The wage transfer impacts of each option have been estimated using ABS data on:

* average weekly earnings by industry in Australia
* employment by industry in Victoria
* applicable penalty rates by industry in Australia.

These wage transfer impacts would largely be felt in industries where employers already operate on public holidays, such as health services, retail, accommodation and restaurant and catering services, among others. For employers that do not operate on public holidays there is no wage transfer impact as their employees would not earn public holiday penalty rates.

It is acknowledged that different employers will be affected by public holiday penalty rates differently. For example, in cases where employers choose to remain open, some (such as those in the hospitality industry) may be able to pass on a portion of the costs of penalty rates to customers through surcharges.

The estimated wage transfers under each option are provided in Table 8. The methodology employed to estimate these transfers is provided in Appendix A. Sensitivity analysis has been undertaken to account for uncertainty around several of the key assumptions. From this, low and high estimates of each impact are modelled.

The business and employee representatives consulted as part of preparing this RIS indicated that some businesses may implement arrangements to partly offset the wage cost increases resulting from the application of penalty rates. For example:

* The Australian Retailers Association advised that businesses may seek to employ a greater share of junior employees on those days.
* A small business in the hospitality sector indicated that it may shift its non-critical activities such as cleaning and preparation tasks to the following day in order to reduce its staff hours on the public holiday.
* The Australian Nursing and Midwifery Federation commented that some organisations in the sector tended to operate on ‘skeleton staffing’ levels on public holidays to partly offset the higher wage costs associated with these days.

We have applied an adjustment to the model to account for these expected ‘efficiency’ effects. Appendix A outlines the adjustments that have been applied.

Table 8: Estimated transfer impacts of the options[[6]](#footnote-7)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Option** | **Additional wage transfers, annualised $m** | | | **Additional wage transfers NPV $m** | |
| **Low estimate** | **High estimate** | **Low estimate** | | **High estimate** |
| 1 | 252 | 286 | 2,011 | | 2,285 |
| 2 | 219 | 247 | 1,729 | | 1,942 |
| 3 | 117 | 147 | 932 | | 1,174 |

Source: PwC analysis. Net present value (NPV) figures are calculated over 10 years.

Option 1 is associated with an annualised impact estimate of between $252 million and $286 million for Victoria.

As would be expected, option 3 provides for the lowest level of additional wage transfers given it creates only one additional public holiday, while each of the other options creates two. Further to this, under option 3 the additional wages associated with public holiday penalty rates on the Easter weekend are actually reduced relative to the base case. This impact emerges due to the transfer of public holiday status from the Saturday before Easter Sunday to Easter Sunday, where the difference in penalty rates on the Saturday is greater than that on the Sunday.

An example of this is provided in Table 9, which shows that the difference between the normal day penalty rate and the public holiday penalty rate is greater on a Saturday than on a Sunday. The electrical power industry is used as an illustrative example.

Table 9: Penalty rates in the electrical power industry

|  |  |  |  |
| --- | --- | --- | --- |
|  | Public holiday | Saturday | Sunday |
| Penalty rate | 250% | 150% | 200% |
| Difference from public holiday penalty rate | - | -100% | -50% |

Source: Fair Work Ombudsman, ‘Pay guide for the Electrical Power Industry Award 2010’, 12 December 2014.

1. This means that the increase in wages paid to employees working on a Saturday public holiday relative to a normal Saturday is greater than the increase for those working on a Sunday public holiday. Continuing with the electrical power industry example, the wage increase associated with a Sunday public holiday is 50 per cent while the Saturday increase is 100 per cent, hence a Saturday public holiday generates greater marginal wage costs on employers than a Sunday public holiday.
2. Option 2 is associated with lower estimated additional wage costs compared to option 1 due to the delayed implementation of the Friday before the AFL Grand Final public holiday, though this difference is smaller than that estimated under option 3.

###### Net impacts of the options considered

* + - 1. Our approach to assessing the net impacts

1. The net impacts of the options will in part depend on the values that Victorians place on collective leisure time and cultural and sporting events.
2. Given limited quantitative information about these potential benefits, this analysis has focused largely on a qualitative assessment of the benefits of the respective options, supplemented by illustrative estimates of the potential benefits where information was available. Our analysis presents a discussion of each option in terms of its expected contribution to the Government’s objectives, followed by an overall ranking of each option against these objectives.
3. The net impacts section then provides estimates of the net cost to the economy of the options. Further detail is provided in Appendix A.
   * + 1. Social and community benefits

Nature of social and community benefits

While public holidays have different historic origins, their existence can be explained generally as the common enjoyment of festivals and events of historical importance.[[7]](#footnote-8) This includes days such as Christmas, Easter and ANZAC day. Historically, festivals and holidays have combined time away from work with community-wide social activities that bring people together for an occasion with common symbolic meaning.

As set out in Labor’s Platform 2014, to many Victorians, public holidays represent significant religious, national, state and local occasions. Providing public holidays on these occasions, such as Easter Sunday, may be associated with additional benefits to the Victorian community.

The Shop, Distributive and Allied Employees’ Association (SDA) commissioned a survey in 2014 that found that more than 71 per cent of Victorians believe that even if Easter Sunday has no religious significance, families should have the right to a public holiday as an opportunity to spend time together, away from work. This provides some indication that the community as a whole may place a value on this public holiday, regardless of their particular religious beliefs.[[8]](#footnote-9)

In addition, the Victorian Council of Churches noted in consultation that Easter Sunday is considered to be a day of significance for many in the community. As such, there are potential benefits in formally recognising the importance of this day.

Public holidays also provide the opportunity for families and friends to take a break from normal work or study activities and to enjoy additional leisure time. For the majority of people, leisure time spent among friends or family is preferable to leisure time spent alone, which is often only enjoyable in periods of smaller duration.[[9]](#footnote-10) This suggests that, in addition to the benefits associated with providing a break from work or study, additional public holidays could also provide community benefits in the form of increased *coordinated* leisure time.

Indeed, it has been argued elsewhere that there are certain social capital gains from the observance of public holidays.[[10]](#footnote-11) Public holidays have been found to facilitate the co-ordination of leisure time and allow people to maintain social contacts more easily. Social contact with friends and family and the maintenance of social contacts have been found to increase the benefits of leisure.[[11]](#footnote-12) While leisure time can be provided through other forms of leave, the provision of public holidays is associated with additional benefits due to the co-ordinated nature of the leave.

Studies have further suggested that the benefits that flow from improved social cohesion and social capital include faster economic growth, better health and lower social costs.[[12]](#footnote-13) Similar benefits have also been found to be associated with time away from work.[[13]](#footnote-14)

The social and community benefits associated with public holidays are discussed further in Appendix B.

The individual value of leisure time

To gain some insight into the potential value that society may place on additional leisure time, it is useful to draw on proxies used in the analysis of infrastructure projects and in other regulatory areas for the value of leisure time. These proxies aim to capture the idea that most individuals derive some benefit or value from their leisure time. While they do not capture the community’s value of collective leisure time, these proxies are considered the most relevant and widely accepted data available for the purposes of the analysis in this RIS.

Studies considered as part of this analysis suggest that the individual value of leisure time could range between 50 per cent[[14]](#footnote-15) and 100 per cent[[15]](#footnote-16) of average earnings.

While there is clearly no consensus around the value of leisure – and in fact it will vary depending on the time of day and the importance of the day – these proxies can be used to consider the value of additional leisure. Applying the above values of leisure time of 50 per cent and 100 per cent of the average wage (corresponding to $13.50 per hour and $27 per hour, respectively)[[16]](#footnote-17) suggests that the benefit to individuals of leisure time (not including the value of coordinated leisure time) associated with two additional public holidays could range between **$156 million** and **$312 million** annually.

1. This range is calculated based on an estimated additional 1.5 million days off for Victorians collectively as a result of the proposed public holidays.

The challenge is whether the above proxies are the full measure of value to place on additional leisure time. To accurately estimate this would require choice modelling, surveys and statistical analysis. Further, the value of leisure time would vary for different individuals, based on their personal preferences and their current amount of leisure time. For example, an individual that has a significant quantity of leisure time currently would be expected to value an additional day of leisure time less than an individual that has limited leisure time.

It is argued that a coordinated day off would result in a higher value of leisure time and therefore perhaps the proxy to use should be higher than the numbers presented.[[17]](#footnote-18) On the other hand, the proxies have been used to reflect two important considerations:

* the holidays are mandated and hence individuals are not choosing to consume leisure, but rather it is being imposed
* some employees (such as casuals) may have preferred to work on the day rather than getting an additional day off, and will receive less pay as a result.

This RIS provides more detail on the expected impacts associated with the proposal, and hence as a consultation document provides an opportunity for the community, employees, employer groups and all citizens more broadly to comment on this potential value.

Performance of the options against the Government’s objectives

Our analysis has not sought to quantify the impact of social and community benefits in the absence of robust information on their size in this context. Qualitative discussion of the options’ performance against the Government’s objectives is however provided below.

1. Table 10 provides a ranking of the options in terms of how closely each option is aligned with the Government’s objectives of providing increased opportunities for Victorians to enjoy coordinated leisure time and acknowledging the important role performed by public holidays on significant religious and state occasions in uniting the community.

Table 10: Ranking of the options: Social and community impacts

|  |  |  |  |
| --- | --- | --- | --- |
| Benefit category | Option 1 | Option 2 | Option 3 |
| Social and community benefits | 1st | 2nd | 3rd |

Source: PwC analysis

As option 1 provides two additional public holidays in the first year of implementation it is expected to be associated with the greatest increase in coordinated leisure time relative to the other options considered. Option 3 provides for only one additional public holiday relative to the *status quo*, hence it ranks third out of the considered options in terms of social and community impacts. Option 2 compares closely with option 1 though it is anticipated to generate marginally lower benefits in terms of coordinated leisure time due to delayed implementation of the Friday before the AFL Grand Final holiday.

* + - 1. Tourism and sport

Public holidays have the potential to stimulate Victorian tourism and associated industries, including transport services, restaurants, accommodation providers and retail services. Tourism benefits are expected to flow to Victoria through:

* enhancing the status of existing sporting and cultural events and coordinating new events on or surrounding the new public holidays
* increased visitation to regional Victoria.

Enhancing existing events

Adding a public holiday for Victoria alongside the AFL Grand Final and the Grand Final Parade provides the potential for increasing these events’ status over time due to:

* increased attendance at associated events as more Victorians will have a day off (noting that attendance at the AFL Grand Final is already at capacity)
* the coordination of further activities associated with the events on the new public holiday
* growth in the ‘festival atmosphere’ in Victoria surrounding these events due to more people having time away from work and the resulting increase in socialising and other community activities
* further building Victoria’s reputation as a destination for sports fans if the Friday before the AFL Grand Final holiday can be developed into an event of similar attractiveness and importance as Spring Carnival.[[18]](#footnote-19)

Public holidays present additional opportunities for leisure activities to be undertaken by those Victorians who are not working. For example, some individuals may be more likely to dine out or to consume other forms of entertainment on a public holiday relative to a normal working day. To the extent that this occurs, this would result in potential benefits (in the form of increased revenue) to some employers that remain open on public holidays.

It is acknowledged that increased consumption on additional public holidays would potentially be partially offset by reduced consumption on other days of the year. Despite this, it is possible that the holidays could generate additional activity that encourages expenditure. For instance, this could occur due to increased interstate or international visitation to the extent that the holidays create additional attractions on the Victorian calendar.

Coordination of new sporting and cultural events

The Friday before the AFL Grand Final public holiday provides the potential for the creation of complementary sporting or cultural events alongside the AFL Grand Final. For example, further developing the AFL Grand Final Parade could provide economic benefits to Victoria.

Due to the uncertainty around the potential values associated with such events around the AFL Grand Final, the size of this benefit has not been estimated.

To provide context around the potential value such events could take in the future, it is useful to draw on other studies of similar events. For example:

* A report into the economic impacts for Tasmania of AFL football matches hosted in Launceston in 2014 found that the four games played contributed approximately $28 million to the economy or an average of $7 million per match.[[19]](#footnote-20)
* The impact of the 2011 Formula 1 Australian Grand Prix was estimated to range between $32 million and $39 million for that year.[[20]](#footnote-21)
* More recently it was estimated that the economic contribution of the Spring Carnival of racing contributed $195 million to the Victorian economy over four days in 2014.[[21]](#footnote-22) Dividing this figure by four implies that a single racing day’s contribution could be close to $49 million annually.

These figures suggest a possible range for tourism and sport benefits to Victoria that could be associated with the coordination of new events on an additional public holiday.

Not all of the above studies relate to sporting events that are connected with public holidays. They have however been included to illustrate the potential benefits that might flow from the creation of additional sporting events on a public holiday.

A further challenge in extending these estimates to the Friday before the AFL Grand Final is that it will take time for the Friday to build towards the tourism event that we see on Spring Carnival or the Formula 1 Australian Grand Prix.

The AFL Grand Final already attracts a capacity crowd. Therefore the coordination of additional events on the day before the AFL Grand Final could not be expected to increase attendance at the AFL Grand Final itself. Tourism Victoria commented that additional facilities and capacity would be required in Victoria (in particular Melbourne) to cater for increased visitors on the AFL Grand Final weekend, as existing accommodation facilities are already heavily subscribed at that time.

The AFL has announced its plan to relocate the AFL Grand Final Parade, which takes place on the Friday before the AFL Grand Final.[[22]](#footnote-23) The potential sporting-related benefits of the Friday before the AFL Grand Final public holiday will be influenced by the expected number of people that celebrate the AFL Grand Final Parade in the future. It has also been reported that the Friday before the AFL Grand Final public holiday could result in a new focus on Thursday night social activities, with Friday shifting to a more family friendly series of events.[[23]](#footnote-24)

Benefits to regional Victoria

It is expected that an additional long weekend would encourage additional trips to regional Victoria. These would increase expenditure on accommodation, food and entertainment services along with less tangible benefits such as increased exposure of Victorian tourist destinations. For example, the regional city of Ballarat experienced a 60 per cent increase in visitors on the Queen’s birthday long weekend in 2013 relative to a normal two-day weekend.[[24]](#footnote-25)

1. Aside from the benefits to regional Victoria of additional visitors, it is likely that cultural events could be coordinated to coincide with the proposed public holiday on the Friday before the AFL Grand Final. The creation of new events in the regions could stimulate local industry, potentially attracting additional visitors from other regions while also encouraging local participation. This is consistent with stakeholder input received as part of the preparation of this RIS:

* the Australian Retailers Association considered that retailers in regional locations could potentially benefit if more people choose to visit regional Victoria as part of the Friday before the AFL Grand Final long weekend
* a representative from the Victorian Employers’ Chamber of Commerce and Industry acknowledged that there are some potential benefits for regional businesses from increased tourism and regional events, but that these benefits may not necessarily offset the additional wage costs that these businesses would incur as a result of the public holiday penalty rates.

Tourism Victoria has indicated that a targeted campaign to encourage Melburnians to travel to the regions on a new long weekend could result in additional tourism expenditure in regional Victoria of between $17 million and $51 million annually.

In the context of this RIS, increased tourism within Victoria is not considered a part of the net impacts. Any increase in tourism related expenditure in regional Victoria would be at least partially offset by reduced consumption expenditure in metropolitan Victoria. Any benefits to the regions could be further offset by the potential for some Victorians to travel interstate on the additional long weekend, leading to reduced consumption expenditure in Victoria for this cohort. The net impact of these effects is uncertain.

Assessment of the options in terms of tourism and sport

In differentiating between the impacts of the options in terms of benefits to Victorian tourism and sport, Option 1 is expected to provide the greatest potential for increased revenue among businesses associated with tourism and leisure spending. This is because option 1:

* creates two additional public holidays upon which such expenditure could occur
* provides for implementation of both holidays in the first year.

1. Table 11 provides a ranking of the options in terms of expected benefits to tourism and sport in Victoria.

Table 11: Ranking of the options: Tourism and sport impacts

|  |  |  |  |
| --- | --- | --- | --- |
| Benefit category | Option 1 | Option 2 | Option 3 |
| Tourism and sport benefits | 1st | 2nd | 3rd |

Source: PwC analysis.

* + - 1. Other factors

1. There is some discussion in the literature to suggest that modest amounts of time off work can lead to improved productivity for workers in the time they are at work.[[25]](#footnote-26) Anecdotally, this is known as ‘recharging the batteries’ or ‘taking a break’. It is also suggested that providing workers with additional paid time off can lead to reduced workplace absenteeism.
2. This view was not strongly held by those consulted in the development of this RIS. Further, it was not seen as a primary reason to introduce additional public holidays. Therefore, the RIS acknowledges the potential for this benefit, but has not quantified the impacts.
   * + 1. Losses due to reduced economic activity

Overview

There will be a cost to the economy associated with employees not working on a day that they would otherwise have worked.

For those employers that choose not to operate on the new public holidays, there would be a reduction in their production. The economic value attached to this reduced production would be lost, which represents a net loss or cost to Victoria.

To estimate the value of this foregone output, we have used Australian Bureau of Statistics (ABS) data on gross state product (GSP) by industry in Victoria.[[26]](#footnote-27) We then applied several assumptions which have been informed by publicly available information and discussions with stakeholders. These assumptions are detailed in Appendix A.

The key assumptions relate to:

* the proportion of employers that would not operate on the public holidays
* the proportion of annual output produced on a single weekday and on a single weekend day.

Potential non-operation due to the public holidays (business closures)

Through consultation with stakeholders, we have sought to identify the extent to which employers would choose not to operate on the proposed additional public holidays (where they would otherwise have operated).

Our assumptions in this respect vary by industry and by day of the week. For example, many employers operate on Monday to Friday only and hence would not be affected by a public holiday on Easter Sunday.

Other employers operate up to seven days a week and would potentially be affected by both a weekday public holiday and an Easter Sunday public holiday. This means that these employers could potentially close on both days.

Our assumptions also vary according to the *proportion* of employers in an industry that would potentially close on those days. While businesses in retail could be affected by both a weekday and a weekend public holiday, the proportion of retailers that would consider closing on those days could be different than other industries such as finance.

The proportion of annual output produced on a single weekday and on a single weekend day

1. Our approach to estimating the impact of reduced economic activity is based on the extent of potential business closures, along with the amount of lost production that would be associated with those closures. This amount is calculated using information on annual production by industry in Victoria.
2. Different levels of output are assumed to occur on weekdays relative to weekend days. This is because, for many industries, most employers operate on a Monday to Friday only basis. For these industries, the amount of annual output is estimated to be spread across approximately 250 days of production. In other industries it is more common for employers to operate on any of the seven days of the week. In these industries, annual output is estimated to be spread over as many as 363 days of the year (i.e. excluding Christmas Day and New Years’ Day). Our assumptions in these respects are detailed further in Appendix A.
3. It is assumed that employers that remain open on public holidays will produce on average the same amount as other similar trading days. It is acknowledged however that some employers will produce more and some may have fewer sales on a public holiday than they would have otherwise. Because of the varied outcomes for different employers in this respect, the model has made the simplifying assumption that on average, production for those employers who remain open would be the same as on a similar trading day absent the public holiday.[[27]](#footnote-28)

Government services

Additional assumptions are made in relation to provision of government services and the proportion of foregone government revenue associated with employer closures and reduced trade on these days. Affected government services include emergency, health and essential services to the extent that these are provided by government. We have relied on top-down estimates of the proportion of these services delivered by government in order to estimate the overall impact on government.

Appendix A provides further information on our assumptions in this regard.

Assessment of the options: losses associated with foregone economic value

Table 12 provides a summary of the estimated impact of each of the considered options in terms of reduced economic activity in Victoria. It shows that under option 1, the lost production resulting from the two additional public holidays equates to between $717 million and $898 million in annual terms.

Table 12: Estimated impact of the options in terms of reduced economic activity

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Option** | **Foregone economic value annualised $m** | | **Foregone economic value NPV $m** | |
| **Low estimate** | **High estimate** | **Low estimate** | **High estimate** |
| 1 | 717 | 898 | 5,770 | 7,226 |
| 2 | 656 | 822 | 5,186 | 6,493 |
| 3 | 679 | 852 | 5,464 | 6,860 |

Source: PwC analysis. NPV figures are calculated over 10 years. Annualised figures are averaged over 10 years.

As shown in Table 12, each of the options are expected to result in different levels of reduced economic activity. The size of the reduced economic activity is directly related to:

* the number of additional public holidays that are implemented – if there are more public holidays, more employers are expected to lose production days and therefore there is a greater loss from reduced economic activity
* the day on which a public holiday falls – if a public holiday is held on a day that employers would ordinarily close, the number of additional employer closures is reduced, as is the associated reduced economic activity.

Given this, the greatest impacts in terms of reduced economic activity are generally created by those options which would implement two additional public holidays (options 1 and 2).

Delaying the implementation of one of the proposed holidays (option 2) reduces the impact in terms of reduced economic activity relative to option 1, as the first year of implementation results in only the Easter Sunday public holiday being added to the calendar with the Friday before AFL Grand Final Day holiday being delayed by one year.

1. Table 13 provides a breakdown of the estimated annualised impacts of each of the considered public holidays within the set of options.

Table 13: Estimated annualised impact of the considered public holidays in terms of reduced economic activity

|  |  |  |
| --- | --- | --- |
| **Proposed public holiday** | **Foregone economic value annualised $m** | |
| **Low estimate** | **High estimate** |
| Friday before the AFL Grand Final, 2015 implementation | 680 | 852 |
| Friday before the AFL Grand Final, 2016 implementation | 619 | 776 |
| Easter Sunday | 37 | 46 |
| Transfer of public holiday status from the Saturday before Easter Sunday to Easter Sunday | 0 | 0 |

Source: PwC analysis. Annualised figures are averaged over 10 years.

###### Overall net impact on society

This RIS presents a discussion of the potential benefits of additional public holidays in general and considers how these align with the Government’s stated objectives.

As there is insufficient information available to quantify all of the potential benefits, we are unable to comment on the overall net impact of the options on Victoria. However, the estimates of the net costs from reduced economic activity provide a guide to the quantum that these benefits must exceed in order to justify the proposed policy.

The costs of the Government’s proposed policy (option 1) are higher than the other options considered. In the absence of an estimate of the benefits for each of the options, this RIS is being published to seek feedback from the community on whether the value of the quantified and non-quantified benefits is likely to exceed the estimated costs.

## The proposed policy

###### Overview

1. The Government has committed to implementing its proposed policy (option 1 in this analysis) as part of delivering on its election platform.
2. The proposed policy is expected to affect Victorian employers and employees differently. The analysis has considered these differences in estimating the impacts of the new public holidays. Examples of the expected impacts on illustrative businesses and employees in selected industries are provided in Table 14.

Table 14: Illustrative impacts of the proposed policy on Victorian employers and employees in selected sectors

|  |  |  |
| --- | --- | --- |
| Illustrative employer\* | Expected impact of proposed new public holidays | |
| Easter Sunday | Friday before the AFL Grand Final |
| **Financial institution** | **No impact expected**  As financial institutions do not generally operate on Easter Sunday, there would be no impact on their operations or their employees. | **Lost day of production and employees receive an extra paid day off work**  This impact occurs because most financial institutions would not operate on the Friday public holiday.  It is possible that less than a full day’s production is lost as some employees may increase their output on the adjacent work days to partly offset the impact of not working on the Friday public holiday. |
| **Manufacturing business** | **No impact expected**  As manufacturers do not generally operate on Easter Sunday, there would be no impact on their operations or their employees. | **Lost day of production and employees receive an extra paid day off work**  This impact occurs because most manufacturing businesses would not operate on the Friday public holiday.  It is possible that less than a full day’s production is lost as some additional shifts and/or overtime may be rostered on the adjacent work days to partly offset the impact of not working on the Friday public holiday. |
| **Hospital** | **Some impact on output expected. Many employees receive additional wages or an extra paid day off**  Hospitals may offer reduced services on this day.  Staff required to work would be paid additional wages due to penalty rates, representing an increased cost for employers.  Others may be entitled to a paid day off. Casual employees no longer required to work that day receive an unpaid day off, representing reduced employment.  If the holiday falls on a rostered day off, many Victorian nurses are entitled to a day’s ordinary pay despite not working. | **Some impact to output expected. Many employees receive additional wages or an extra paid day off**  Hospitals are expected to experience broadly similar impacts on the Friday holiday as on the Easter Sunday holiday, though the magnitude of the impact would likely be greater on the Friday.  This is because:   * the normal level of services offered is greater on a Friday than on Easter Sunday, meaning a public holiday on a Friday creates a greater disruption to services * Public holiday penalty rates add in some cases about 150% to the Friday wage rate but only about 50% on top of the Sunday wage rate. This means the additional wages are greater on a Friday public holiday. |
| **Café** | **Some impact to output and to employment expected. Many employees receive additional wages or an extra paid day off**  Some cafés would close due to an Easter Sunday public holiday, representing approximately one day’s lost production. For casual café employees who would otherwise have worked, this represents lower employment. Permanent employees may get an extra paid day off.  Cafés that remain open would pay employees higher wages due to penalty rates, meaning increased income for some workers. Some employers could apply public holiday surcharges to help recoup some of these additional wage costs.  Some employers may be able to adjust their staffing mix toward juniors and permanent staff rather than casuals in an effort to limit wage cost increases. | **Some impact to output and to employment expected. Many employees receive additional wages or an extra paid day off**  Cafés would likely experience similar impacts on the Friday holiday as on the Easter Sunday holiday, though the magnitude of the impact is expected to be greater on the Friday because:   * many cafés would already close on Easter Sunday meaning output is already lower on that day under current arrangements. On a Friday however most cafés would be expected to be open * Public holiday penalty rates add in some cases about 150% to the Friday wage rate but only about 50% on top of the Sunday wage rate. This means the additional wages are greater on a Friday public holiday. |

Source: PwC. \*Some employers falling within these descriptions would experience different impacts. The expected impacts provided in the table are illustrative only.

###### Impacts of the proposed policy

The lost production cost of option 1 due to reduced economic activity is estimated to be between **$717 million** and **$898 million** annually.

The benefits of increased individual leisure time have been estimated to potentially range between **$156 million** and **$312 million** annually. The wider benefits which can accrue to families and the broader community have not been quantified. This reflects the fact that these broader benefits depend intrinsically on individual and community preferences and on the value of as-yet unknown future events. The nature of these potential benefits is discussed qualitatively in Appendix B. In summary, the potential benefits relate to:

* social and community benefits associated with additional coordinated leisure time for Victorians
* increased tourism expenditure and enhancement of Victoria’s reputation as a great sporting state
* increased productivity and reduced absenteeism in the workplace.

1. As these benefits have not been quantified, we are unable to comment on the net impact of the proposed policy. However, the RIS has sought to provide context around the possible values that benefits could take.

Additional leisure time

1. Our analysis has estimated that approximately 1.5 million additional days off work would be taken by Victorians collectively due to businesses and other employers not operating on the proposed holidays for an estimated benefit of between $156 million and $312 million annually.

Tourism and sport

The analysis earlier acknowledged that there may be benefits from additional tourism and enhancing Victoria’s reputation as a great sporting state. Estimates from studies of the economic contribution of football and like events are however presented in order to provide some context around these potential benefits. Existing research suggests these benefits could range between $7 million and $49 million annually. Achieving such values for new events would likely take time and resources and would be unlikely to occur in the first years of implementation.

Benefits required to offset the costs of the proposal

Given estimated costs of between **$717 million** and **$898 million** annually, the community would need to place a value on the benefits of both Easter Sunday and the Friday before the AFL Grand Final public holidays in the range of **$405 million** to **$742 million** a year (in addition to the $156 million to $312 million benefits estimates discussed above) in order for the benefits to offset the costs associated with the Government’s proposal.

The actual value may need to be higher however to result in a net benefit, given it will take time and resources for the Friday before the AFL Grand Final to become a significant day in the sporting calendar.

###### Distributional impacts of the net economic impacts

Table 15 presents estimates of the distributional impacts of the Government’s proposed policy. Discussion of these estimates is provided in the following sections.

Table 15: Estimated distributional reduced activity impacts of the proposed policy

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group** | **Net impact, annualised $m** | | **Net impact NPV $m** | |
| **Low estimate** | **High estimate** | **Low estimate** | **High estimate** |
| Medium and large business/ not-for-profit | 358 | 456 | 2,877 | 3,669 |
| Small business/ not-for-profit | 177 | 226 | 1,424 | 1,815 |
| Government | 183 | 216 | 1,469 | 1,742 |

Source: PwC analysis. NPV figures are calculated over 10 years. Annualised figures are averaged over 10 years.

Business, workers and consumers

Initially, it is likely that Victorian employers would bear close to the full burden of reduced economic activity associated with the proposed policy (other than that associated with provision of government services which is discussed below). In the long-term, it is possible that these costs could flow to Victorian employees and/or consumers in the form of lower future wages (or smaller wage increases) and/or higher prices for products and services.

Small business

1. We have relied on ABS data on small business in Victoria to form estimates of the incidence of the impact of the proposed policy on small business.
2. It is possible that small businesses will pass on these additional costs over time through smaller wage increases and/or increased prices for their products and services. However, the bargaining power of small businesses may be lower than that of larger employers, which would suggest that this process may take longer than would be the case for the latter.

The not-for-profit sector

1. We have not sought to split out the estimated costs to the not-for-profit sector from those to business. However, based on consultation with stakeholders we note that employers in the sector may be less able to pass on any additional costs through lower wage offers or increased product prices. In particular, those employers that receive funding from government may be less able to argue for additional funds due to increased costs in Victoria only, given there would be no change in arrangements in other states.

Government

We have relied on publicly available information in partitioning the costs of reduced economic activity associated with the proposed policy between businesses and government. Based on this approach, it is estimated that the costs of reduced economic activity attributable to government are between $183 million and $216 million in annualised terms.[[28]](#footnote-29)

We note that the costs to government in this case could be different than the estimates provided. Our analysis has relied on top-down estimates of the proportion of GSP by industry that is associated with government-provided services in order to calculate the estimated impact to government. This amount includes the impact of foregone taxes (less subsidies) on production and on products that would otherwise have occurred under the *status quo*.

The extent to which these costs remain with government rather than being passed on to government employees and/or wider Victorian society is unclear.

###### Incidence of the impact of wage transfers

Table 16 presents estimates of the wage transfers borne by different employer groups.

Table 16: Estimated distributional impact: wage transfers

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group** | **Wage transfers annualised $m** | | **Wage transfers, NPV $m** | |
| **Low estimate** | **High estimate** | **Low estimate** | **High estimate** |
| Medium and large business/ not-for-profit | 143 | 163 | 1,142 | 1,298 |
| Small business/ not-for-profit | 71 | 80 | 565 | 642 |
| Government[[29]](#footnote-30) | 38 | 43 | 303 | 345 |

Source: PwC analysis. NPV figures are calculated over 10 years. Annualised figures are averaged over 10 years.

Uneven impacts of marginal wage transfers

Affected workers

The costs to employers of additional public holiday wages are not evenly distributed among those firms that bear the burden. Nor are the benefits of more pay for working on a public holiday spread evenly among the different categories of Victorian workers.

It is expected that employers choosing to operate on a public holiday will actively seek to manage their costs, where possible. For example, small business will substitute paid staff with owner input and/or family. In addition to this, those employers that remain open may choose to roster fewer staff relative to a normal trading day and/or to only undertake core activities requiring lower employee input.

This behaviour is expected to result in lower numbers of employees working on the two proposed holidays relative to the *status quo*. For workers employed on casual arrangements, this translates to a lost earning opportunity and lower income. It is estimated that between **65,800 and 80,400 fewer casual employees** would be rostered to work across those two days due to employers adjusting their staffing mix to manage their costs.[[30]](#footnote-31) In addition to this, an estimated 273,000 casual employees are expected not to be working across the two public holidays due to fewer employers operating.[[31]](#footnote-32)

Small business impact

Smaller businesses are more likely to be negatively impacted by additional public holidays. This is because for many small businesses, wage costs form a greater proportion of overall operating costs, meaning penalty rates amplify the costs of opening their doors by a greater amount than it does for larger firms for which staffing costs form a smaller proportion of overall operating costs. Put simply, it is likely to be harder for smaller businesses to absorb the costs of additional wages than it is for larger businesses.

This means that it is also more likely that smaller businesses will choose to close on any additional public holidays, which could lead to greater economic losses for Victoria overall.

###### Competition assessment

The declaration of a public holiday is a universal policy that is imposed on all employers equally. That is, it affects all businesses operating in the state rather than those in particular industries or sectors.

There may be varying impacts however on different employers in different sectors, by size. As discussed in Section 5.4, it is possible that some small businesses could be disadvantaged relative to larger employers due to the impacts of penalty rates. In addition employers operating on different days of the week may be affected differently. This is because employers that operate on weekends are faced with two additional public holidays, while those trading Monday to Friday would be affected by only one additional holiday.

It is more likely however that competition between employers occurs within industries where employer behaviour is relatively comparable. For example, it is more likely that restaurant operators open seven days a week would compete with other restaurant operators opening similar hours rather than with firms engaged in construction operating Monday to Friday. As such, it is expected that the proposed policy would be unlikely to restrict competition in Victoria, although the analysis in this RIS suggests there will be a net impact on economic activity more broadly.

###### Implementation and enforcement

* + - 1. Implementation

Implementation of the proposed policy would be done through existing provisions. The *Public Holidays Act 1993* provides for gazettal of additional public holidays by the relevant Minister. This is not limited to a specific year or number of years.

* + - 1. Enforcement

1. Enforcement of the proposed policy is not expected to require significant additional resources on behalf of the government.
2. Existing arrangements for enforcing trading rules and the payment of penalty rates on public holidays would likely be used to support enforcement of the proposed policy.
3. Given that existing arrangements would be applied and additional costs associated with enforcement of the proposed policy are not expected to be material, we have not sought to provide an estimate of these costs.

###### Evaluation strategy

It is an important step in best practice regulation to review regulations regularly to ensure that they remain the most appropriate means of addressing the specified objectives. An evaluation strategy is therefore needed to monitor the effectiveness of the preferred regulatory option.[[32]](#footnote-33)

1. Under the Government’s commitment to introduce two new public holidays, the Department will monitor the impacts on business and the broader community from the introduction of the new public holidays, including identifying any unintended consequences. The Department will review the impacts of the policy on an ongoing basis.
2. The Department’s ongoing monitoring will consider:

* the extent to which the Government’s objectives of the proposal are being met
* the impacts of the policy on the Victorian economy, including the impacts on Victorian small business and employment in the State
* other factors important to the analysis in this RIS, including but not limited to:
  + the level of production smoothing undertaken by Victorian employers
  + the extent of business closures on the new holidays
  + the extent to which any new events coordinated on or around the new public holidays attract additional tourists to Victoria.

It is expected that the Department will consult with relevant stakeholder groups as part of its ongoing monitoring of the impacts of the new public holidays.

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#### Methodology

General approach

There are two factors to consider in relation to the impacts of additional public holidays.

Foregone economic value associated with reduced production/economic activity.

Additional wage transfers from employers to employees due to public holiday penalty rates.

The first factor is estimated using data on Victorian gross state product (GSP). The second factor is estimated using average weekly earnings of Australian workers, Victorian employment and relevant penalty rates. Each of these data sources is broken down (where possible) by industry reflecting ANZSIC industry classifications as used by the Australian Bureau of Statistics (ABS).

All figures presented are in 2015 Australian dollars.

Varying impacts by industry

An important consideration in this RIS relates to the varying economic impacts of additional public holidays on different industries in Victoria.

Weekday and weekend public holidays

1. Industries differ in relation to the days of the week employers usually operate. For instance, many restaurants trade on weekends, whereas schools generally do not. For these reasons, an additional weekday public holiday would impact both types of employers while a weekend public holiday would be expected to impact some restaurants but not most schools.
2. To measure the impacts of additional public holidays falling on different days of the week we have distinguished between industries that are likely to be affected by a weekend public holiday and those that are not.

* Category A businesses/industries are most likely to operate seven days a week.
* Category B relates to those industries where work has traditionally occurred only Monday to Friday.

1. The categorisation of employers by industry is provided in Table 17.
2. Though it could be anticipated that many Category B industries would experience employer closures of close to 100 per cent on a weekday public holiday, the modelling has assumed in general that 80 per cent of employers in these industries would not operate. This is done to reflect that a number of small businesses may choose to open or to work on that day.

Production smoothing by employers

A second distinction relates to the extent to which employers in different industries are able to accommodate the lost production opportunity associated with a public holiday. For instance, employers in some industries could raise production on the days before and after the public holiday and as a result would lose less than one full day’s production from not operating on a public holiday.

This ‘production smoothing’ behaviour is assumed to occur in different industries to varying degrees as shown in Table 17.

The different production smoothing percentages listed in Table 17 apply to different groupings of industries. For instance, in customer-facing industries where production or trade cannot occur without the presence of customers, or when critical services are delivered that cannot be moved to other days of the week, production smoothing is not expected to occur to a great extent. In these industries, such as the Retail industry and in Health care and social assistance, 10 per cent of the production that would otherwise be lost on a public holiday where employers do not operate is assumed to occur on the surrounding days.

Industries such as Financial and insurance services, where production is less dependent on the physical presence of the customer, are expected to smooth production to a greater extent. In these industries, technology provides for greater possibilities in terms of both the location and timing of production, which allows work to be more easily smoothed across the week.

In the remaining industries where some level of smoothing is expected to occur, it is assumed that 20 per cent of the production that would otherwise be lost on a public holiday where employers do not operate is smoothed to other days.

Cost management by employers

1. It is expected that those employers choosing to operate on a public holiday will actively seek to manage their costs, where possible. For example, small business may substitute paid staff with owner input and/or family. In addition to this, those employers that remain open may choose to roster fewer staff relative to a normal trading day and/or to only undertake core activities so that less employee input is required. It is also expected that employers may substitute toward rostering permanent staff rather than casuals to reduce wage costs. The Australian Hotels Association has suggested that its members reduce costs on public holidays by:

* closing restaurants for lunch and/or dinner
* reducing access to room service
* closing or reducing bar trading hours
* limiting menu offerings
* minimising the servicing of rooms and amenities.[[33]](#footnote-34)

1. Therefore, for the purposes of the analysis, it is assumed that not all employers that remain open would pay the same level of wages as on a normal trading day. The proportions of normal wage costs which employers in different industries are assumed to incur are shown in Table 17.

Table 17: Industry-specific assumptions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Industry | **Category** | **% Additional employers closed** | | **Extent of production smoothing^ (%)** | **% normal wage costs¥** |
| **Weekday holiday** | **Weekend holiday** |
| Agriculture, forestry and fishing | B | 80.0% | 2.5% | 20.0% | 70.0% |
| Mining | B | 80.0% | 2.5% | 20.0% | 70.0% |
| Manufacturing | B | 80.0% | 2.5% | 20.0% | 70.0% |
| Electricity, Gas, Water and Waste Services | A | 50.0% | 10.0% | 10.0% | 70.0% |
| Construction | B | 80.0% | 2.5% | 20.0% | 70.0% |
| Wholesale trade | B | 80.0% | 2.5% | 20.0% | 70.0% |
| Retail | A | 30.0% | 7.0% | 10.0% | 70.0% |
| Accommodation and food services | A | 30.0% | 7.0% | 10.0% | 70.0% |
| Transport, Postal and Warehousing | A | 50.0% | 10.0% | 10.0% | 70.0% |
| Information Media and Telecommunications | A | 80.0% | 10.0% | 20.0% | 70.0% |
| Financial and insurance services | B | 95.0% | 2.5% | 30.0% | 20.0% |
| Rental, hiring and real estate services | B | 80.0% | 2.5% | 20.0% | 70.0% |
| Professional, scientific and technical services | B | 95.0% | 2.5% | 30.0% | 20.0% |
| Administrative and support services | B | 95.0% | 2.5% | 20.0% | 70.0% |
| Public administration and safety\* | A | 70.5% | 5.0% | 20.0% | 70.0% |
| Education and training\*\* | B | 40.0% | 5.0% | 20.0% | 70.0% |
| Health care and social assistance | A | 50.0% | 10.0% | 10.0% | 70.0% |
| Arts and recreation services | A | 30.0% | 5.0% | 10.0% | 70.0% |
| Other services | B | 80.0% | 5.0% | 20.0% | 70.0% |

\*As this industry captures those employed in security and emergency services it is assumed that a portion of this industry would operate seven days a week. \*\*As the proposed Friday public holiday falls within the Victorian school holidays, existing closures are expected to be relatively high in this industry, reflecting the lower levels of production on student-free days. ^These percentages represent the proportion of assumed daily production that is preserved despite employers not operating. For example, 20 per cent production smoothing suggests that 80 per cent of output is foregone on a public holiday due to employers closing. ¥This relates to the proportion of normal wage costs employers are assumed to incur on a public holiday (before the application of relevant penalty rates). For example, 70 per cent normal wage costs implies that employers reduce their normal wage costs by 30 per cent by adjusting the staffing mix or rostering fewer employees.

The percentages described in Table 17 were informed by consultation with numerous stakeholders as detailed in Section 1.6 and have been adopted for the purpose of modelling. They were not figures explicitly stated by the stakeholders consulted. As a consultation document, this RIS is seeking the community’s feedback on the appropriateness of these assumptions.

It is acknowledged that there would be examples of employers in Category B industries that operate on weekends. Similarly, there would be examples of employers in Category A industries that operate only Monday to Friday. Employers in the same industry could also vary by the extent to which they are able to smooth production across other days of the year or their ability to manage wage costs on a public holiday. Our analysis has not sought to capture these variations (and others) that may occur within industries.

*One-off administrative costs*

Some employers would potentially incur one-off administrative costs in adjusting their systems and planning arrangements to accommodate additional public holidays. For the purposes of the analysis, it is assumed that these incremental costs would be relatively small, given employers undertaking such activities would likely already have plans in place to accommodate existing public holidays. The potential administrative costs are also expected to vary widely between different employers, with some incurring little to no costs and others incurring more significant costs.

For employers who do not use automated systems to process employees’ pay, the incremental cost of accommodating additional public holidays is expected to be negligible. This is because rostering and pay calculations would already be undertaken regularly, taking into account periodic variation in days and times worked by employees and any applicable penalty payments.

For larger employers using automated systems, it is acknowledged that there may be some costs associated with re-configuring systems to accommodate additional public holidays. Spread across the 10-year analysis period however these one-off costs are not expected to be significant, particularly in proportion to the costs associated with reduced economic activity or increased wage payments. The number of employers that could incur these administrative costs, as a proportion of the total number of employing businesses in Victoria, is also unclear. As such, the analysis does not include estimates of these administrative costs.

Foregone economic value associated with reduced production/economic activity

To estimate the value of foregone economic output associated with additional employer closures on public holidays, the analysis uses ABS data on GSP by industry in Victoria.

GSP can be broken down into the following components:

* **Total factor income** (TFI), which captures business profits along with wages and other benefits paid to employees, such as superannuation.
* **Taxes less subsidies on production and on products**, which relates to government revenue net of expenditure.

On public holidays where the level of economic activity is reduced relative to a normal day a proportion of GSP is expected to be foregone.

*Proportion of GSP associated with one day’s production*

1. As GSP is measured annually it is necessary to determine the proportion of annual GSP that is associated with a single day’s production. Different levels of output are assumed to occur on weekdays relative to weekend days and for employers in Category A and Category B.
2. Employers in Category B industries, where production typically occurs Monday to Friday, would be expected to operate on approximately 250 days per year. One day’s production would broadly correspond to 1/250 of annual production, which is equal to approximately 0.4 per cent.
3. Employers in Category A industries are assumed to spread production across approximately 363 days in the year as they typically operate on weekends and some public holidays. One day’s production in Category A industries broadly corresponds to 1/363 of annual production, which is equal to approximately 0.28 per cent.
4. To account for the fact that levels of daily production could vary by employer, by day of the week and by the time of year, the modelling has assumed a range of daily productivity estimates.

Day-of-week productivity effects

There is some evidence to suggest that productivity could vary across the different days of the week. For instance, it is noted that workplace absenteeism is more common on Mondays and Fridays in Australia than on the intervening days.[[34]](#footnote-35) This suggests that employer productivity on a Friday or Monday could be lower than other days of the week, and that the value of foregone economic output on a Friday public holiday could correspondingly also be lower than would apply for other days of the week.

Research from the United Kingdom examining the amount of time spent working by employees on different days of the week found that people spend fewer minutes working on Fridays and Mondays relative to Tuesdays, Wednesdays and Thursdays.[[35]](#footnote-36) However, the difference in minutes worked does not necessarily correspond to lower productivity on those days. As the research paper acknowledges:

* 1. *“our review of the empirical literature uncovers scant direct evidence of day-of-week productivity effects”.[[36]](#footnote-37)*

1. Furthermore, if it was assumed that Friday productivity is lower than other weekdays due to it being adjacent to the weekend, it is likely that the introduction of a new public holiday on a Friday would impact not only the level of production on Friday (due to some employers not operating) but that of the preceding Thursday. This is because Thursday would become the last working day before a (long) weekend.
2. In the absence of further information on these relative impacts, the analysis assumes that the level of production foregone on a Friday public holiday is equal to the average weekday production for those businesses that close.

Time-of-year productivity effects

1. It is also acknowledged that productivity on the Friday before the AFL Grand Final could be lower than on other weekdays across the calendar for some employers, as it falls within the Victorian school holiday period. Conversely, for some Victorian employers this could be a busier period where productivity would potentially be higher. For instance, some restaurants and tourism businesses could experience greater demand in this period.

Modelling assumptions

1. The range of daily productivity estimates assumed in the modelling attempts to account for these uncertainties and for other trends that could influence the level of productivity achieved by different Victorian employers.
2. Our assumptions in respect of daily productivity are provided in Table 18.

Table 18: Proportion of annual output associated with one day's operation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Category A industries** | | **Category B industries** | |
| **Minimum** | **Maximum** | **Minimum** | **Maximum** |
| Proportion of annual output associated with one day’s operation | 0.25% | 0.31% | 0.36% | 0.44% |

Source: PwC analysis informed by stakeholder consultation.

Calculation of foregone economic value

For each industry, the calculation of foregone economic value associated with reduced economic activity is shown in Figure 4.

Figure 4: Calculation of foregone economic value associated with reduced economic activity

Source: PwC analysis.

1. The analysis of foregone economic value due to employers closing on additional public holidays is based on the proportions of businesses or employers by industry choosing not to operate beyond that which would otherwise normally be expected on that day. For instance, it is anticipated that significant numbers of employers would normally choose not to operate on Easter Sunday in the absence of the introduction of a public holiday on that day. It is assumed that the number of employer closures would be greater than that observed on a normal Sunday.
2. Similarly, for the Friday before the AFL Grand Final the calculation of foregone economic value due to employers closing is based on the proportions of employers choosing not to operate beyond that which would otherwise normally be expected on that day under the current arrangements.
3. Additional calculations are required in relation to government revenue associated with the level of total factor income foregone due to additional public holidays. This is captured in the state accounts for Victoria by the net of taxes less subsidies on production and on products measure. It is assumed that where reduced production occurs, reduced taxes are levied and subsidies paid by government.
4. The amount of foregone taxes less subsidies on production and on products is calculated by first estimating the proportion of annual total factor income that is foregone under the options considered. The analysis applies this proportion to annual taxes less subsidies on production and on products to calculate an amount that would be foregone under each option.
5. The net impact to Victoria of the options is the sum of foregone total factor income and foregone taxes less subsidies on production and on products associated with each option.

Wage transfers

The wage transfer impacts of each option have been estimated using data on average earnings of Australian workers by industry, overall employment in Victoria by industry and penalty rates in Australia by industry. These are provided in Table 19.

Table 19: Data sources used in calculating wage transfers

|  |  |  |
| --- | --- | --- |
| Data item | Source | Period |
| Average weekly earnings for full-time workers by industry in Australia | ABS 6302.0 Average Weekly Earnings, Australia. Table 10H | June 2014 |
| Employment by industry in Victoria | 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly. Table 5 | May 2014 |
| Penalty rates by industry in Australia | Fair Work Australia pay guides, available from <http://www.fairwork.gov.au/pay/minimum-wages/pay-guides>. | N/A |

For each industry, the wage transfer calculation is shown in Figure 5. Separate calculations are performed for part-time and full-time workers.

Figure 5: Calculation of wage transfers

Source: PwC analysis.

Several adjustments are made to the average earnings data in order to calculate estimates of the wage transfers. The assumptions used to make these adjustments are provided in Table 20.

These wage transfer impacts would be felt largely in industries where employers commonly operate on public holidays, such as health services, retail, accommodation and restaurant and catering services, among others. For employers that do not operate on public holidays there is no wage transfer impact as their employees would not earn public holiday penalty rates.

Table 20: Additional assumptions employed in calculating wage transfers

|  |  |  |  |
| --- | --- | --- | --- |
| Category | Rationale | Adjustment factor | Source |
| Existing penalty rate contribution to average earnings | As the weekly earnings figures include earnings from penalty rates, it is necessary to remove their contribution before applying the relevant public holiday penalty rate to earnings. | Five per cent | DEEWR submission to Senate Standing Committee on Education, Employment and Workplace Relations Inquiry into Fair Work Amendment (Small Business – Penalty Rates Exemption) Bill 2012, page 11.  Source data suggest an average 10 per cent reduction is appropriate though this relates to industries where increased use of casuals is common. We have applied a simplifying assumption of half this amount given it is being used across all industries. |
| Daily earnings | To calculate a daily earnings figure for employees in each industry, we take the ABS full-time weekly earnings figure and divide by 5, assuming most full-time employees work five days per week on average. | One fifth of full-time weekly earnings | ABS 6302.0 Average Weekly Earnings, Australia. Table 10H, Stakeholder consultation |
| Proportion of full-time employees at work on a public holiday or weekend | For employers that remain open on public holidays and weekends, it is assumed that five out of seven full-time employees would work on the day (based on full-time employees working five out of every seven days, on average) | 71 per cent | Stakeholder consultation |
| Proportion of part-time employees at work on a public holiday or weekend | For employers that remain open on public holidays and weekends, it is assumed that not all of their part-time employees would be at work. | 41 per cent | Based on median hours worked by Australian employees not employed full-time, ABS 63590DO002\_201311 Forms of Employment, Australia, November 2013, Table 2. |

*Additional considerations associated with wage transfers*

Temporal impacts

As discussed in Appendix B, the value of the wage transfers may reduce in the long term as employers seek to recover the additional labour costs from employees as part of future wage bargaining. In the absence of information on the rate at which these transfers would be expected to reduce, the RIS presents estimates of the full impact of the transfers assuming that employers do not respond through future wage bargaining.

Income tax

Further to this, the cost to employers of the wage transfer may not necessarily exactly match the size of the benefit received by employees. This is because many employees will pay a portion of the wage transfer received from their employers to the Federal Government in the form of income tax. While this impact is acknowledged, the analysis assumes that this second transfer amount would flow back to Victorians over time through Federal Government expenditure. As such, the modelling approach does not adjust for this impact.

Payroll tax

The analysis has also had regard to the interaction between the effect of penalty rates and the amounts of payroll tax paid by employers. It is expected that some employers who operate on public holidays would face additional financial costs due to these considerations. Other employers who do not operate on the additional public holidays would incur lower payroll tax costs as their overall wage bill would be lowered. Due to these competing effects, the analysis has assumed that the overall impact of payroll tax transfers between employers and the Victorian Government due to the additional public holidays is zero.

Workplace health and safety premiums

Some employers may also face increased costs due to increased WorkCover premiums as a result of their increased wage payments due to public holiday penalty rates. Any initial increase in costs is however expected to be minimal and is likely to be reversed as a result of WorkCover premium calculations over time relating to workplace risk. As such the analysis has assumed that, on balance, the impact of these costs to employers is zero.

Additional days off for employees due to public holidays

1. Estimates of the number of additional days off for employees have been prepared as part of the analysis. Additional days off for employees arise due to some employers closing or not operating on public holidays when they otherwise would have operated absent the introduction of the public holiday.
2. Figure 6 provides the approach used in these calculations. Different estimates were prepared for the separate public holidays based on:

* the proportions of employees expected to be working in different industries on different days of the week
* the expected level of additional employer closures in different industries on the various public holidays considered.

Figure 6: Approach used to calculate the number of additional days off for employees due to public holidays

Source: PwC analysis.

Table 21 lists the assumptions made in addition to those provided earlier in Table 20 (in respect of the proportions of employees at work on public holidays and weekends).

Table 21: Assumptions used in calculating additional days off for employees

|  |  |  |  |
| --- | --- | --- | --- |
| Category | Units | Assumption | Source |
| Hours worked per day | Hours | 7.5 | Stakeholder consultation |
| Proportion of full-time workers who would usually be at work on a weekday in Category B industries\* | Per cent | 95 | Stakeholder consultation |
| Proportion of part-time workers who would usually be at work on a weekday in Category B industries | Per cent | 55 | Based on median hours worked by Australian employees not employed full-time, ABS 63590DO002\_201311 Forms of Employment, Australia, November 2013, Table 2. |

\*Excluding the Education and Training industry

Distributional impacts

Estimates have been prepared of the distributional impacts of the Government’s proposal. The net impacts and transfers have been split among three groups:

medium and large business/not-for-profits

small business/not-for-profits

government.

To prepare these estimates, the overall impacts (in terms of both net impacts and transfers) associated with option 1 were split between all business/not-for-profits and government. The government proportion is assumed to be approximately 15 per cent of the estimated amount for both net impacts and transfers (excluding the impacts to government taxes and subsidies, which are assumed to fall to government for the purposes of the distributional analysis). This is based on the proportion of Victorian employment associated with public sector employees as reported by the ABS.[[37]](#footnote-38)

1. The remaining business/not-for-profit component is split between small business/not-for-profit and medium to large business/not-for-profit by taking the average of two separate figures:

* The proportion of employing businesses that are small businesses in Australia, which is approximately 37 per cent[[38]](#footnote-39)
* The proportion of employees that work for small businesses in Australia, which is approximately 30 per cent.[[39]](#footnote-40)

1. By taking the average of these two figures the proportion of the estimated impacts (both net impacts and transfers) attributed to small business/not-for-profit is approximately 33 per cent.

Sensitivity testing

1. Due to the significant uncertainty related to the potential impacts of the options and the difficulty that consultation participants had in estimating impacts, sensitivity analysis has been undertaken to test the impacts of a range of inputs.
2. Where it was considered that modelling inputs exhibited significant uncertainty, minimum and maximum values were assigned based on feedback provided during the consultation process. Using the minimum, maximum and most likely values, distributions were created for each of these inputs and Monte Carlo simulations were run 5,000 times to generate a distribution of outputs.
3. These distributions were used to form a range for each model output.

Timeline

The net impacts and transfers associated with each option have been estimated over a 10 year time period. The 10 year estimates have been discounted using a real discount rate of 4.0 per cent and then reported as an overall 10 year net present value (NPV).

The calculated impacts are assumed to increase over time as follows:

* Wage transfers grow over time according to growth in the wage price index (3.3 per cent) and in Victorian employment (1.7 per cent), based on historical growth.
* Net impacts associated with reduced economic activity are assumed to grow at the historical rate of GSP growth in Victoria, which is calculated to be around 2.4 per cent over the last 10 years.

All calculations were undertaken in 2014 dollars and then inflated to 2015 dollars in line with the Victorian Guide to Regulation. The adjustment was made using the latest available data for the Consumer Price Index (CPI) in Australia, which gives a rate of 1.3 per cent for the year ended 31 March 2015.[[40]](#footnote-41)

Consideration of further impacts

The analysis in this RIS focuses on the direct impacts to provide the key information necessary to facilitate informed community engagement and consideration of the Government’s commitment and the alternatives considered. Beyond the direct impacts, it is acknowledged that there would be potential flow-on (or second order) effects which have not been estimated. For example, stakeholders consulted for this analysis indicated that there could be flow-on impacts from additional public holidays such as:

* increased hospitalisation costs (due to road trauma, personal injury, etc)
* longer-term impacts on employment, trade, wages and business activity in Victoria
* the value of coordinated leisure time (beyond the value of individual leisure time).

To estimate the impacts of these and other second-order effects would require comprehensive computable general equilibrium and choice modelling to be undertaken. Rather than being a definitive analysis, this RIS concentrates on the direct impacts of the additional public holidays and acknowledges the additional, flow-on impacts that may occur.

#### Potential impacts of additional public holidays

Transfer impacts

Overview – Industry awards and the application of penalty rates

Many Victorians are employed under industry awards, which specify minimum rates of pay for workers in the industry among other conditions of employment. Awards also specify the penalty rates that apply to work undertaken at certain times or on certain days. Commonly, penalty rates within a single award vary by:

* **The time of day**: Many awards offer penalty rates for work undertaken during ‘unsociable’ hours such as late evenings or very early mornings.
* **The day of the week**: For example, the penalty rate for Saturdays is frequently different to that which applies to Sunday work.
* **The day of the year**: Awards generally specify penalty rates for the public holidays that fall within the year.
* **The basis of employment**: Casual workers are frequently paid an additional wage loading relative to those employed under permanent arrangements.

Penalty rates apply a loading to the base or agreed rate of employee pay, which increases the wages paid to employees working at times or on days where penalty rates are applicable. An example of this is provided in Table 22, which shows the penalty rates in the electrical power industry that apply on Saturdays, Sundays and public holidays, along with the difference between the normal day penalty rate and the public holiday penalty rate.

Table 22: Penalty rates in the electrical power industry

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Public holiday | Saturday | Sunday | Weekday |
| Penalty rate | 250% | 150% | 200% | 100% (no penalty rate) |
| Difference from public holiday penalty rate | - | -100% | -50% | -150% |

Source: Fair Work Ombudsman, ‘Pay guide for the Electrical Power Industry Award 2010’, 12 December 2014.

As Table 22 shows, employees working on a weekday public holiday in the electrical power industry are paid 150 per cent more than a typical weekday. Conversely, a Sunday public holiday would add 50 per cent to their earnings relative to a typical Sunday.

While awards and penalty rates apply to most industries in Australia, the impact of penalty rates is greatest in those industries where the days and hours of work are not considered ‘standard’, meaning industries where weekend, evening and night work are common. This includes health and other essential services, along with retail traders, restaurants and accommodation service providers. Employers in these industries are more likely to require their employees to work outside ‘standard’ hours, hence it is more likely that penalty rates are relevant for such employers.

Implications for additional public holidays

Introducing additional public holidays in Victoria would increase the wages paid to many Victorian employees working on those days due to public holiday penalty rates.

These additional wages are a key concern for Victorian business and other employers operating on public holidays, in particular for small businesses and not-for-profit entities. Consultation with stakeholders has highlighted that this concern is sufficiently high to result in some potential business closures on these days. Business closures would result in reduced economic activity, which is captured in this RIS under ‘net impacts’.

From a net or ‘social impact’ perspective, the additional wages paid by employers trading on public holidays are considered a transfer given the cost to employer of paying the additional wages is matched by an equivalent benefit to the employees who receive the wages. As a community, Victoria is no better- or worse-off due to the impact of these wages alone. In fact, the economy-wide impact is measured in terms of changes to output at the State level.

Revisions to penalty rates

The impact of additional public holidays in terms of wage transfers is not necessarily attributable to the holiday itself but rather to the differences between public holiday penalty rates and the otherwise prevailing rate of pay on the day. These differences are not fixed over time as the penalty rates paid to workers in different industries are subject to change. In fact, a review into workplace arrangements including penalty rates is currently being undertaken by the Productivity Commission.

Due to these considerations, the wage transfer impacts explored in this analysis relate to prevailing penalty rates paid to Victorians at the time of writing and it is acknowledged that these impacts would be subject to change wherever there are changes to these rates.

Nature of wage transfers over time

Over the long term, it is possible that the impact of wage transfers on employers (cost) and employees (benefit) could reduce. To the extent that employers (businesses, not-for-profits and the government sector) are able to factor these additional wage costs into their future wage agreements in the form of lower than otherwise wage offers, it possible that employers may be able to reduce the size of the wage transfers in the future.

Further, while employers bear the additional wage costs in the first instance, it is possible that some of these costs may be passed on to consumers in the form of higher prices for goods and services.

Rational wage bargaining

Where employers engage in rational wage bargaining, they are expected to form expectations around employee productivity over the year when making salary offers to employees or considering salary increases year-on-year. For many employers it is likely that the creation of new public holidays may be taken into account in future wage negotiations.[[41]](#footnote-42)

Firms engaging in rational wage bargaining will base their wage offers to workers on the basis of their employees’ level of production through the year. An increase in annual wage costs due to additional public holidays, while holding the level of production constant, would result in lower wages being paid or lower wage offers being made to workers in the future.

It is acknowledged that firms’ ability to lower the wage offers made to workers will vary. For example, firms that pay their workers at award rates are less likely to be able to adjust their employees’ wages. This is because the award creates a lower bound beyond which wages cannot be reduced. An additional consideration is that most awards are set at the national level, meaning Victorian firms would be less able to campaign for smaller award increases following the gazettal of additional public holidays.

Insights from increases in the superannuation guarantee levy

The effects of rational wage bargaining can be seen by examining the anticipated impacts of the recent changes to the superannuation guarantee levy. Wages and/or future wage offers are expected to be lower due to increases in the superannuation guarantee levy in Australia from nine per cent to 12 per cent, which effectively raises the wages paid to employees in Australia. Research on the impacts of the changes prepared on behalf of The Association of Superannuation Funds of Australia suggested that employer costs could be increased in the short term, but that in the longer term:

*“employers will pass on the burden of increase either in the form of price rises on the goods and services they sell, or in the form of lowered wages (or wage growth) for their employees, or both”*[[42]](#footnote-43)

In respect of the increases in the superannuation guarantee levy, the Australian Industry Group advised its members to consider the increases in the levy when negotiating new enterprise agreements over the years ahead.[[43]](#footnote-44)

These findings suggest that some firms may engage in rational wage bargaining following changes to employee remuneration. Hence, it is expected that the changes to remuneration that flow from the payment of additional public holiday penalty rates could potentially be passed on to workers in the form of lower wages (or lower wage increases in future periods) and potentially also to consumers in the form of product price increases.

In the short term, it is likely that firms would bear at least the majority of the costs associated with increased wages due to penalty rates. This is because most firms would be unable to adjust the wages paid to their employees in the short term.

In the long term, when such changes can be incorporated into the wage bargaining process, the costs of wage transfers are expected to reduce. This implies that the benefits to employees of increased wages in the short term could be eroded in the long term by lower wages or lower wage increases overall.

Net impacts

Social and community benefits

Increased benefits from coordinated leisure time

As set out in Labor’s Platform 2014, to many Victorians public holidays represent significant religious, national, state and local occasions. They also provide the opportunity for families and friends to take a break from normal work or study activities and to enjoy leisure time.

The benefit that individuals derive from leisure time frequently depends, at least in part, on the presence of companions. For the majority of people, leisure time spent among friends or family is preferable to leisure time spent alone, which is often only enjoyable in periods of smaller duration.[[44]](#footnote-45)

This suggests that in addition to the benefits associated with providing a break from work or study, additional public holidays would increase social benefits by providing *coordinated* leisure time.

Workers preferences: paid work or an extra day off?

The preferences of workers on permanent employment arrangements (those with paid leave entitlements) are important to consider. Despite securing a potential day or two days’ paid holiday, which represents a strict benefit to affected employees, it is possible that workers will find it more difficult to secure pay increases from their employees in light of the additional paid holiday(s) on offer.

Given the choice between more pay and more holidays, the literature suggests that many respondents choose more holidays. In a 2002 study it was found that 51.6 per cent of those surveyed preferred a holiday to an equivalent pay rise.[[45]](#footnote-46) Other work has estimated that 56.5 per cent of the Australian population exhibited a preference for leave time over money. These preferences were found to be consistent among different groups of workers, including professionals and non-professionals.[[46]](#footnote-47)

These findings suggest that beyond the benefits of a paid day off, many workers may also prefer a public holiday to an equivalent pay rise.

Further social benefits of public holidays

Public holidays have a range of specific historic origins, but their existence can be explained generally as the common enjoyment of festivals and events of historical importance.[[47]](#footnote-48) Obvious examples of festivals are Christmas and Easter, with ANZAC Day and Australia Day being examples of national days with historical significance. Historically, festivals and holidays have combined time away from work with community-wide social activities that bring people together for an occasion with common symbolic meaning.

Enjoying oneself in this way adds to the benefit of participants on the day which implies that the benefits of leisure consumed on holidays includes some additional direct benefits from the common enjoyment of that time, as well as building social cohesion and social capital.[[48]](#footnote-49) Studies have demonstrated that the benefits that flow from improved social cohesion and social capital include faster economic growth, better health and lower social costs.[[49]](#footnote-50) Similar benefits have also been found to be associated with time away from work.[[50]](#footnote-51)

Timing considerations

While these findings support the provision of public holidays, there are different views as to which public holidays might be the most beneficial. It has been argued that for days of national or religious significance such as Australia Day, ANZAC Day or Christmas Day, activities associated with these days may still be coordinated absent a public holiday.[[51]](#footnote-52) That is, if there is a ‘natural’ reason to take certain days off voluntarily then a coordinating device, such as a compulsory public holiday, has a smaller impact.

This does not negate the argument that public holidays are beneficial to individuals but rather asserts that the public holidays that are the most beneficial are those that are not attached to existing coordinated activities. That is, those days that are provided as public holidays upon which it is unlikely that individuals would voluntarily take time off as such days provide an opportunity for social behaviour that otherwise is unlikely to occur.[[52]](#footnote-53)

Tourism and sport

Public holidays carry the potential to stimulate Victorian tourism and associated industries, including transport services, restaurants, accommodation providers and retail services. Tourism benefits are expected to flow to Victoria through:

* enhancing the status of existing sporting and cultural events and coordinating new events on or surrounding the new public holidays
* increased visitation to regional Victoria.

Public holidays present additional opportunities for leisure activities to be undertaken by those Victorians that are no longer required to work due to the public holiday. For example, some individuals may be more likely to dine out or to consume other forms of entertainment on a public holiday relative to a normal working day. To the extent that this occurs, this would result in potential benefits (in the form of increased revenue) to some employers that remain open on public holidays.

It is acknowledged that increased consumption on additional public holidays would likely be partially offset by reduced consumption on other days of the year. Despite this, it is possible that the public holidays could generate additional activity that encourages increased expenditure. For instance, this could occur due to increased interstate or international visitation to the extent that the public holidays create additional attractions on the Victorian calendar.

It is also possible that more Victorians would travel interstate on a long weekend, compared with a normal weekend. This would lead to reduced expenditure within Victoria for this cohort.

Other factors

Increased productivity due to additional leisure time

It is widely acknowledged that individuals require periods of rest from work in order to achieve optimal levels of productivity. This concept is consistent with the existence of weekends and limits established on the number of consecutive hours employees may be required to work.

Research prepared by Oxford Economics found that both employers and employees perceive significant benefits to paid time off in the United States.

* 1. *For the employer, benefits include more productive, focused and dedicated employees. For employees, time away from work reduces stress with notable benefits to relationships and health. Most employees report coming back to work feeling renewed and refreshed, and ready to focus on work.[[53]](#footnote-54)*

Other research has identified that countries with relatively high numbers of paid days off for workers also have relatively high productivity per worker.[[54]](#footnote-55) These findings suggest that providing additional paid time off through a public holiday has the potential to provide some direct benefits to employees and indirect benefits to businesses in terms of increased worker productivity.

Reduced absenteeism

The above findings also have potential implications for workplace absenteeism. Where workers are not offered paid time off, the literature indicates that they may be more likely to take absence from work to get an extended break. This would reduce the overall productivity of that employee within the business.

Research on worker absenteeism suggests that workers are more likely to take sick leave on a Monday or a Friday in order to achieve a longer weekend. In Australia it was found that workers were three times as likely to take a sick day on a Monday compared to a Wednesday, with Fridays the next most likely after Mondays.[[55]](#footnote-56)

Currently in Victoria there is a significant period through the latter-half of the year where no public holidays occur on the calendar. After the Queen’s Birthday holiday in mid-June, there are no public holidays for almost five months until Melbourne Cup Day in November. A new public holiday in the latter half of the year between June and November would provide many workers with an additional paid day off and a long weekend. This could potentially influence workers’ decisions around unplanned leave in that period.

1. Victorian Labor Party, ‘Platform 2014’, 2014. [↑](#footnote-ref-2)
2. It is noted that the Easter Sunday public holiday for 2015 was gazetted temporarily for 2015 and has already passed at the time of writing this RIS. The analysis presented here is anticipated to be indicative of what would occur in future years should the Easter Sunday public holiday be introduced permanently. [↑](#footnote-ref-3)
3. ABS 6291.0.55.003 Labour Force, Australia, Table 5. Data for Victoria for May 2014. Includes total employment in Victoria for industries assumed to trade on weekends and public holidays; refer to Appendix A for details of which industries this includes. [↑](#footnote-ref-4)
4. Tourism Victoria, ‘Economic contribution of tourism to Victoria, 2013-14’, April 2015, p. 2. [↑](#footnote-ref-5)
5. Victorian Labor Party, ‘Platform 2014’, 2014. [↑](#footnote-ref-6)
6. The ABS does not provide estimates of the average weekly earnings of those employed in the Agriculture, Forestry and Fishing industry. As such, the wage transfers estimated in this RIS do not capture those transfers associated with workers in that industry earning additional wages due to public holiday penalty rates. Using a separate data source (available from http://lmip.gov.au/default.aspx?LMIP/IndustryInformation/AgricultureForestryandFishing) on the median earnings of employees in Agriculture, Forestry and Fishing, it was estimated that the wage transfer impacts in that industry could potentially contribute an additional 1 per cent to the estimates presented. Due to the uncertainty and size of this estimate, this RIS has not included these transfers in the overall transfer estimates presented. [↑](#footnote-ref-7)
7. Merz, J. and Osberg, L., ‘Keeping in Touch: A Benefit of Public Holidays’, *Institute for the Study of Labor Discussion Paper No. 2089*, April 2006, p.18. [↑](#footnote-ref-8)
8. SDA submission to Small Business Victoria regarding the proposed gazettal of Easter Sunday 2015 as a public holiday, 30 January 2015. [↑](#footnote-ref-9)
9. Merz, J. and Osberg, L., ‘Keeping in Touch: A Benefit of Public Holidays’, *Institute for the Study of Labor Discussion Paper No. 2089*, April 2006. [↑](#footnote-ref-10)
10. Ibid. [↑](#footnote-ref-11)
11. Bonke, J., Deding, M. and Lausten, M., ‘Time and Money: Substitutes in Real Terms and Complements in Satisfaction’, *The Levy Economics Institute Working Paper No. 451*, May 2006, pp. 15-16. Hamermesh, D., ‘Timing, togetherness and time windfalls’, *Journal of Population Economics*, vol. 15, 2002, p. 621. Merz, J. and Osberg, L., op.cit., p. 1. [↑](#footnote-ref-12)
12. Cairncross, G. and Waller, I., ‘Not Taking Annual Leave: What Could it cost Australia?’, *Journal of Economic and Social Policy*, vol. 9, no. 1, Summer 2004, pp. 43-59. Merz, J. and Osberg, L., op.cit., p.19. Putnam, R., ‘Bowling Alone: America’s Declining Social Capital’, *Journal of Democracy*, vol. 6, no. 1, 1995, pp. 65-66. [↑](#footnote-ref-13)
13. Gilbert, D. and Abdullah, J., ‘A Study on the Impact of the Expectation of a Holiday on an Individual’s Sense of Well-being’, *Journal of Vacation Marketing*, vol. 8, no. 4, 2002, p. 353. [↑](#footnote-ref-14)
14. Brown, E., 'Assessing the value of volunteer activity', Nonprofit and Voluntary Sector Quarterly, Vol 28, Issue 3, 1999, p. 11. [↑](#footnote-ref-15)
15. The Commonwealth Office of Best Practice Regulation’s (OBPR) Regulatory Burden Measurement Framework suggests using the average hourly wage of $27 per hour: Department of the Prime Minister and Cabinet, *Office of Best Practice Regulation*, ‘Regulatory Burden Measurement Framework’, July 2014. [↑](#footnote-ref-16)
16. Based on the Commonwealth Office of Best Practice Regulation’s suggested average hourly wage of $27 per hour: Department of the Prime Minister and Cabinet, *Office of Best Practice Regulation*, ‘Regulatory Burden Measurement Framework’, July 2014. [↑](#footnote-ref-17)
17. Bonke, J., Deding, M. and Lausten, M., ‘Time and Money: Substitutes in Real Terms and Complements in Satisfaction’, *The Levy Economics Institute Working Paper No. 451*, May 2006, pp. 15-16. D Hamermesh, ‘Timing, togetherness and time windfalls’, *Journal of Population Economics*, vol. 15, 2002, p. 621. Merz, J. and Osberg, L., ‘Keeping in Touch: A Benefit of Public Holidays’, *Institute for the Study of Labor Discussion Paper No. 2089*, April 2006, p. 1. [↑](#footnote-ref-18)
18. Benefits to tourism operators could be tempered to some extent by any additional wage costs they incur as a result of public holiday penalty rates [↑](#footnote-ref-19)
19. PwC, ‘Estimation of the economic contribution to the Tasmanian economy: Hawthorn Football Club games in Launceston in 2014’, November 2014. [↑](#footnote-ref-20)
20. Ernst & Young, ‘The economic impact of the 2011 Formula 1 Australian Grand Prix’, July 2011. Prepared on behalf of Tourism Victoria. [↑](#footnote-ref-21)
21. Victorian Government media release, the Hon John Eren MP, 'Melbourne Cup Carnival pays tourism dividends’, 19 March 2015. [↑](#footnote-ref-22)
22. Thomson, M, ‘New route announced for Grand Final Parade’, 13 May 2015. Available from http://www.afl.com.au/news/2015-05-13/new-route-announced-for-grand-final-parade. [↑](#footnote-ref-23)
23. Wilson, C. ‘AFL may move grand final parade’, *The Age*, April 22 2015. [↑](#footnote-ref-24)
24. Gower, C., ‘Long weekend a Ballarat tourism bonanza’, *The Courier*, June 11, 2013. Comments attributed to Sossi, G., Chief Executive Officer of Ballarat Regional Tourism. [↑](#footnote-ref-25)
25. Oxford Economics, ‘An assessment of paid time off in the U.S’, February 2014. Stansberry, G., ‘How more vacation time can increase productivity’, November 2010. Available from https://www.americanexpress.com/us/small-business/openforum/articles/how-more-vacation-time-can-increase-productivity-1/ [↑](#footnote-ref-26)
26. The proportion of Victorian GSP associated with ownership of dwellings is excluded from the analysis on the basis that it is unaffected by additional public holidays. [↑](#footnote-ref-27)
27. It is acknowledged that the estimates of foregone economic activity associated with each of the options could be higher where employers produce less than on similar trading days. Our analysis has provided for a range of estimates under each option considered to capture this uncertainty. For example, employers in some industries may experience reduced sales on a weekday public holiday relative to a normal trading day, while others operating on a reduced roster may also produce less than would normally be expected. Similarly, the estimated value of foregone economic activity could be lower where employers are more productive on public holidays relative to similar trading days. For instance, in some service industries such as the Accommodation and food services industry some employers may experience increased trade and hence be more productive on a public holiday relative to a similar trading day. [↑](#footnote-ref-28)
28. We note that this includes a proportion associated with Commonwealth and Local Government operations occurring in Victoria; we have not sought to separate the State, Local and Commonwealth Government components of these figures. [↑](#footnote-ref-29)
29. It is noted that the wage transfer estimates associated with government differ from those provided in Labor’s Financial Statement 2014 (LFS). The estimates provided in this analysis are inclusive of all levels of government (Federal, State and Local) and would be expected to be higher than the LFS figures which capture State Government impacts only. Additional differences between the estimates presented here and the LFS figures could arise due to the different approaches used; this RIS adopts a top-down estimation approach while the LFS figures were developed using a bottom-up approach. [↑](#footnote-ref-30)
30. This estimate is calculated on the basis of the proportions of employers in different industries remaining open on the proposed holidays along with the proportions of casual employees (both full-time and part-time) expected to be working. [↑](#footnote-ref-31)
31. This estimate is based on the number of casuals by industry and employment category (full-time and part-time) receiving an additional day off under the Government’s proposal. Appendix A provides additional information on how the number of additional days off was estimated. [↑](#footnote-ref-32)
32. Department of Treasury and Finance Victoria, *Victorian Guide to Regulation,* Melbourne, December 2014. [↑](#footnote-ref-33)
33. Australian Hotels Association, ‘Four Year review of Hospitality Industry (General) Award 2010 (“The HIGA”) AHA Position Statement’, Updated 16 February 2015, p. 3. [↑](#footnote-ref-34)
34. Wilson, P., ‘The Australian sickie’, *HRmonthly*, November 2012, p. 4. [↑](#footnote-ref-35)
35. Bryson, A. and Forth, J., 'Are there day of the week productivity effects?', Manpower Human Resources Lab: The London School of Economics and Political Science, July 2007. [↑](#footnote-ref-36)
36. Ibid, p. 32. [↑](#footnote-ref-37)
37. ABS 6248055002DO001\_2013-14 Employment and Earnings, Public Sector, Australia, 2013-14; ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly. [↑](#footnote-ref-38)
38. ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, June 2009 to June 2013. [↑](#footnote-ref-39)
39. ABS 6306.0 Employee earnings and hours, Australia May 2014. [↑](#footnote-ref-40)
40. ABS, 6401.0 Consumer Price Index, Australia, March 2015. [↑](#footnote-ref-41)
41. Leigh, A., ‘An economic case for more public holidays’, July 8 2006. Available from https://previousleigh.wordpress.com/2006/07/08/an-economic-case-for-more-public-holidays/ [↑](#footnote-ref-42)
42. Association of Superannuation Funds of Australia, ‘Moving the superannuation guarantee from nine per cent to 12 per cent’, May 2013. [↑](#footnote-ref-43)
43. Australian Industry Group, ‘Member advice: Increase in the superannuation guarantee levy’, 2012. [↑](#footnote-ref-44)
44. Merz, J. and Osberg, L., ‘Keeping in Touch: A Benefit of Public Holidays’, *Institute for the Study of Labor Discussion Paper No. 2089*, April 2006. [↑](#footnote-ref-45)
45. Denniss, R, ‘Annual leave in Australia: An analysis of entitlements, wage and preferences’, *The Australia Institute Discussion Paper No. 56*, 2002, Canberra. Cited in Pocock, Skinner and Pisaniello, ‘The Australian Work and Life Index 2010’, University of South Australia, July 2010. [↑](#footnote-ref-46)
46. Pocock, Skinner and Pisaniello, ‘The Australian Work and Life Index 2010’, University of South Australia, July 2010. [↑](#footnote-ref-47)
47. Merz, J. and Osberg, L., ‘Keeping in Touch: A Benefit of Public Holidays’, *Institute for the Study of Labor Discussion Paper No. 2089*, April 2006, p.18. [↑](#footnote-ref-48)
48. Ibid, p. 19. [↑](#footnote-ref-49)
49. Cairncross, G. and Waller, I., ‘Not Taking Annual Leave: What Could it cost Australia?’, *Journal of Economic and Social Policy*, vol. 9, no. 1, Summer 2004, pp. 43-59. Merz, J. and Osberg, L., op.cit., p.19. Putnam, R., ‘Bowling Alone: America’s Declining Social Capital’, *Journal of Democracy*, vol. 6, no. 1, 1995, pp. 65-66. [↑](#footnote-ref-50)
50. Gilbert D. and Abdullah, J., ‘A Study on the Impact of the Expectation of a Holiday on an Individual’s Sense of Well-being’, *Journal of Vacation Marketing*, vol. 8, no. 4, 2002, p. 353. [↑](#footnote-ref-51)
51. Gans, J., The Use and Uselessness of Public Holidays, 2006. Available from [www.economics.com.au/?p=253](http://www.economics.com.au/?p=253). Accessed on 3 April 2015. [↑](#footnote-ref-52)
52. Ibid. [↑](#footnote-ref-53)
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54. Stansberry, G., ‘How more vacation time can increase productivity’, November 2010. Available from https://www.americanexpress.com/us/small-business/openforum/articles/how-more-vacation-time-can-increase-productivity-1/ [↑](#footnote-ref-55)
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