

The Great NZ 7-Day Service Co. Ltd

The Herald asked Business NZ to estimate the cost increases for an average NZ company during this electoral term. On the basis of nearly 18,000 mid-sized (10- 49 employees) New Zealand companies, Business NZ has created an 'average' company from data from Business NZ member companies: The Great NZ 7-Day Service Co. Ltd – which operates in the service sector from premises with capital value of \$500,000, has an annual turnover of \$4 million, an operating surplus of \$176,000 last year and employs 20 staff:

1 x \$100,000	managing director
1 x \$70,000	manager
2 x \$45,000	supervisors
6 x \$33,000	frontline staff
8 x \$30,000	frontline staff
1 x \$16,016	unskilled packing helper
<u>1 x \$11,232</u>	apprentice
\$725,248	wage & salary cost

The Great NZ 7-Day Service Co. Ltd is asking its external accountant to identify costs stemming from decisions made by the current Government.

Memo to: Steve, Accountancy Services Ltd
From: Managing Director, The Great NZ 7-Day Service Co. Ltd

Steve – We've now had a year's business cycle under the present Government. I want to know if the critics were right – are our costs increasing because of the Government's policies? I'd like to know the extra costs we'll have incurred for the 3 years ending December 2002. Please give me specifics where you have them and reasonable estimates otherwise. - Mike

Memo to: Managing Director, Great NZ 7-Day Service Co. Ltd
From: Steve, Accountancy Services Ltd

Mike – Here are the actual and estimated extra costs for the 3 calendar years 2000 – 2002. I've put rates/local government-related costs first, followed by labour-related and tax costs. I haven't included opportunity costs – the value of what you could have achieved if your resources hadn't been spent on what they have been spent on! – but could calculate these if you wish. – Steve

Extra costs incurred during the 3 years: 2000 - 2002

- **Rates** – rates have been increasing at twice the rate of inflation, an increase of \$600 each for both 2000 and 2001; the two Local Government Bills currently going through Parliament will give our local council more powers and more scope to get involved in cost-incurring activities while requiring less financial stringency and giving more flexibility to set higher rates; it's likely that

these new measures could see rates increase up to 6% annually - an additional \$900:

\$2,100

- **Resource management** – uncertainties over how resource consent applications will be treated by the local council increased over the last year as existing RMA problems remain and new issues arose e.g. financial aid to objectors encouraged spurious objections (including from your competition!) and you followed our advice to use a consultant to prepare the application to expand premises: consultant fee \$3,000 and 40 hours of your manager's time (salary \$70,000) overseeing progress @ \$33 per hour:

\$4,320

- **Employment Relations Education** – (the 5 days' paid leave for union members to undertake employment relations training granted by the Employment Relations Act); during 2001 two days' leave were taken by a staff member on salary of \$33,000 incurring temping costs of \$254, and three days' leave were taken by a staff member on salary of \$30,000 incurring temping costs of \$346, along with \$60 fee to temp agency = \$660; the same costs are likely again this year:

\$1,320

- **ERA training courses** – manager (salary \$70,000) attended half-day course on changed requirements resulting from the Employment Relations Act; training cost \$250; time cost @ \$33 per hour \$132:

\$382

- **Union negotiations** – the Employment Relations Act has meant unions are once again involved in your employment agreement negotiations and has also meant some of your staff changing from individual to collective agreements; negotiations last year took an additional 10 hours of your time (salary \$100,000) @ \$48 per hour and 5 hours consultancy work by your regional employers' association @ \$150 per hour = \$1,230, and are likely to do the same again this year:

\$2,460

- **Health & safety training courses** – changes coming up to the Health & Safety in Employment Act will mean much greater potential liability for the company; before the end of 2002 you will have to invest in additional training to ensure everyone understands the new obligations; approximate cost of health & safety consultant to advise on required policies and procedures and to train supervisors:

\$2,000

- **Contingent liability, fines** – the new health & safety legislation will raise the level of fines and increase your risk by adding "stress" and "fatigue" and will prevent you from insuring against any fines arising from a workplace accident; I recommend you therefore make contingency provision of 1% of your current wage bill to self-insure:

\$7,252

- **Safety representative training** – the Health & Safety in Employment Amendment Bill proposes a system of safety representatives; if the Bill is passed in its current form it will require an employee representative to be elected if requested by any employee, with 2 days' paid leave for training; this provision is likely to be in the Act, so you should make provision in 2002 for temping costs for 2 days for an employee (salary \$33,000) at \$127 per day, along with \$60 fee to temp agency:

\$314

- **Increased holiday pay** – the new holidays legislation is likely to require you to pay time and a half for staff working statutory holidays as well as giving them a paid day's leave; you should make provision for an extra 1% on your wage bill in 2002:

\$7,252

(Mike - be aware the issue of whether there is to be a fourth week's annual holiday has yet to be resolved – if the Alliance Party is successful in convincing Labour, this will add a further 2% to the wage bill)

- **Increases in minimum wage** – the increases in the minimum wage (up from \$7.70 to \$8 per hour for adults; up from \$5.40 to \$6.40 per hour for 16-17 year olds) take effect in March 2002 and will increase the payment to your packing helper and apprentice respectively; extra cost in 2002 (and thereafter):

\$2,703

(Mike - obviously, increases of 3.9% and 18.5% to the minimum wage are likely to mean your more qualified and experienced staff will have increased expectations this coming wage round!)

- **Parental leave replacement cost** – the new paid parental leave law will encourage more staff to take parental leave in order to get the payment but does not require them to return to work once the leave's over; in the past, 50% of your staff who got pregnant knew they didn't want to come back and resigned, but as a result of the new policy you can expect the likelihood of a staff member taking parental leave to rise from 50% to 100%, so as well as the work involved replacing staff for short periods, there will be extra complications because of those who will take the leave while knowing they won't be coming back - with your past average of one staff pregnancy a year, this means an increase in recruitment and training costs in 2002 by around:

\$500

- **ACC - loss of no-claims discount** - the change from private insurer back to ACC resulted in the loss of your no-claims bonus (gained for being claim-free for the last three years); you are too small to qualify for the 10 - 20% discounts available to larger firms (a 10% discount would have saved \$500 in ACC premiums in each of 2001 and 2002):

\$1,000

- **ACC changes, personnel** – ACC says reintroduction of lump sum payments and other changes will add 5 cents per \$100 of earnings to premium costs in 2002; additional wage and salary costs given your wage bill of \$725,248:

\$362

- **ACC changes, vehicles** - the ACC levy for company vehicles increases your costs from \$128 to \$141

\$13

- **Fuel taxes** – the reported petrol increase of 4 cents per litre for your company vehicle @ 20,000 kilometre mileage @ 10 kilometres per litre:

\$80

(By the way Mike, road user charges for light diesel vehicles are tipped to go up significantly this year and there is an additional \$35 levy being added to the licensing fee – you should put on hold plans to buy that diesel van.)

- **Fringe benefit tax** – the introduction of multi-rate FBT now requires a fourth quarter adjustment for those earning below the top rate of tax; this required an extra hour of my time for the last financial year @ \$120 per hour and will mean a similar requirement for this financial year:

\$240

Mike, the news is not all bad. In a couple of areas costs have reduced because of decisions made by the Government:

- **Apprenticeship** - the Modern Apprenticeship scheme helped you take on your apprentice and support her through her training programme; this is important given your past difficulties in recruiting and retaining skilled staff; the total value of this apprenticeship which you would otherwise have had to spend:

\$5,500

- **Provisional tax** – your sales have been stronger than expected in the December quarter and your operating surplus is \$6,000 ahead of forecast for provisional tax; normally you would face penalty interest of nearly 12% but the Government is changing its use-of-money provisions to allow you to offset that against your expected shortfall, and as you overpaid provisional tax last year, you save:

\$400

So Mike, my conservative estimate of additional costs you will have incurred during the three calendar years 2000 – 2002 is **\$26,398**. Some of those costs, e.g. ERA training, were one-offs, but the great majority will be ongoing costs. (You are also probably aware that the Government intends to ratify the Kyoto Protocol on climate change – although policy measures are uncertain at this time, we can probably expect further increases in fuel and electricity prices in the future.) I strongly recommend against your planned building expansion and advise no further hiring.

Steve