

WACOSS Submission to

Fair Work Australia Annual Wage Review 2010



wacoss

Western Australian
Council of Social Service Inc

*Ways to make
a difference*

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**WACOSS submission
Fair Work Australia's annual wage review 2010**

Background

As the peak body of the community services sector in WA, WACOSS has a particular interest in the adequacy of living standards and quality of life experienced by Western Australians living on a low income.

WACOSS represents organisations in a diverse range of areas including:

- Health;
- Community services and development;
- Disability;
- Employment and training;
- Aged and community care;
- Family support;
- Children and youth services;
- Drug and alcohol assistance;
- Indigenous affairs;
- Support for culturally and linguistically diverse people;
- Housing and crisis accommodation;
- Safety and justice; and
- Advocacy

WACOSS' submission is made to illustrate some of the pertinent issues relating to minimum wages and poverty, employment, and income support. We also wish to make explicit the link between minimum wages and the community services sector, along with the impact the economic downturn has had on minimum wage earners in Western Australia.

WACOSS thanks Fair Work Australia for the opportunity to input into the minimum wage setting process, and encourages ongoing consultation with all relevant stakeholders in future decisions.

WACOSS also welcomes the undertaking of research in order to inform its decisions, and maintains that this practice should continue to inform future decisions.

Introduction

The income paid under the minimum wage and accompanying awards is vital to ensure that workers are protected by minimum standards. Minimum wages are a vital means of protecting low-income workers from poverty. In turn, the safety net that adequate minimum wages provide can be seen as an important way in which minimum wages actually promote social inclusion.¹ The wage earned by full time minimum wage earners should be high enough to ensure they have the capacity to meet their basic living costs, while living with dignity and respect.

From 2006 to 2009 minimum wage setting was undertaken by the Australian Fair Pay Commission (AFPC). On 1 July 2009 Fair Work Australia began operations as part of a new national workplace relations system underpinned by the *Fair Work Act 2009*.²

Fair Work Australia

Fair Work Australia (FWA) is responsible for setting minimum wages for employees in the national workplace relations system. The annual wage review for the 2009/10 financial year will be conducted by Fair Work Australia's Minimum Wage Panel (the Panel) in the period between March and June 2010.³

Minimum wage setting is determined by a Minimum Wage Panel headed by the President of Fair Work Australia and comprising six other members. The 2010 national minimum wage order must:

- set a rate of pay for employees without coverage of awards or agreements (who are not junior employees, employees to whom training arrangements apply or employees with disability);
- set a special national minimum wage for employees with disability; and
- set a casual loading.⁴

The Minimum Wage Panel may also consider whether to vary rates of pay for employees covered by modern awards, transitional Australian Pay and Classification Scales or Division 2B State awards. The Minimum Wage Panel may also set a special national minimum wage for employees to whom training arrangements apply and junior employees. However, it is not required to until its 2010–11 annual wage review.⁵

In previous years, WACOSS has endorsed the principles and information provided by ACOSS, our national body. We continue to endorse submissions made by ACOSS with regards to setting the federal minimum wage. WACOSS would like to suggest the Panel consider the following principles when making wage-setting decisions:

¹ Nelms, L. and Tsingas, Dr C. Fair Work Australia (2010). *Research Report 2/2010*. Literature review on social inclusion and its relationship to minimum wages and workforce participation

²Fair Work Australia. See <http://www.fwa.gov.au/index.cfm?pagename=trans>

³ ibid

⁴ ibid

⁵ ibid

- decisions on the level of minimum wages should be informed by 'benchmark' estimates needed to attain a decent basic standard of living, according to contemporary Australian standards;
- the benchmarks should be well above poverty levels; to ensure that employees can live in dignity, and to preserve work incentives by setting minimum wages higher than social security payments;
- consideration of modest minimum wage increases in terms of its relationship to social inclusion and workforce participation
- the effect of minimum wage and family payment on poverty in families should be taken into account when setting minimum wage;
- the Commission should increase minimum wages in order to keep in line with general wage increases, so minimum wage earners do not fall behind; and
- minimum wage rates for young people, apprentices and trainees, and people with disabilities under the Supported Wage System, should continue to be increased in line with the rise in the federal minimum wage.⁶

The Australian Council of Trade Unions (ACTU) maintains that real wages have actually fallen under WorkChoices as a result of the Fair Pay Commission's four wage setting decisions. Various media reports⁷ suggest this is by anywhere between \$15 and \$29 per week, with some award-wage earners losing about \$100 per week.

WACOSS endorses the ACTU's position to claim for a substantial increase in the federal minimum wage for 2010, especially in light of the Commission's decision to maintain rates in 2009.

Who relies on minimum wages in Western Australia?

The current transitional national minimum wage is \$14.31 per hour (\$543.78 per 38 hour week).⁸ This rate was set by the Australian Fair Pay Commission (AFPC) in its July 2008 general Wage-Setting Decision and took effect from the first full pay period on or after 1 October 2008. In its 2009 general Wage-Setting Decision, the AFPC decided to maintain this rate and to maintain the existing rates in Australian Pay and Classification Scales (Pay Scales).⁹

The Commission concluded that "in the current environment, the ability of employers to offer sufficient work has been curtailed and there is a heightened risk that an increase in minimum wages would reduce employment and working hours", deciding to focus "on protecting jobs and supporting a stronger recovery in employment as the economy improves".¹⁰

⁶ ACOSS *Submission to the Fair Pay Commission on Minimum Wages*, p.2. (2008).

⁷ See media reports from the ABC <http://www.abc.net.au/news/stories/2010/02/08/2813058.htm>, The Age <http://www.theage.com.au/national/union-push-for-big-pay-rises-20100207-nksp.html>, and the SMH <http://www.smh.com.au/business/unions-push-case-for-increase-to-the-minimum-wage-20100208-nlf5.html>

⁸ Fair Work Australia. See <http://www.fwa.gov.au/index.cfm?pagename=minlatest#what>

⁹ Fair Work Australia. See <http://www.fwa.gov.au/index.cfm?pagename=minabout#panel>

¹⁰ General Wage Setting Decision 2009. See <http://www.fairpay.gov.au/fairpay/WageSettingDecisions/General/2009/FactSheets/GeneralWage-SettingDecision2009.htm>

In its 2009 submission, WACOSS acknowledged the Commission's hesitation in committing to minimum wage increases in the current economic climate. However, we maintained that these increases were a necessary element in protecting all vulnerable Western Australians from falling further into poverty and debt cycles.

Low paid employees come mainly from retail, hospitality and community service industries. Currently in Western Australia, there are approximately 160 000 people employed in the retail industry, 45 000 in hospitality, and 110 000 in health and community services.¹¹

The incidence of low pay is generally greater for young people and women, and for those with low educational qualifications. In addition, about one third are sole breadwinners, and two fifths are the highest earner in their household.¹²

Minimum wages and the community services sector

As the peak body for the community services sector in WA, WACOSS is a strong advocate for minimum wage earners both in the sector and in the broader community. WACOSS is deeply concerned by the incidence of low pay in the sector in terms of its ability to attract and retain staff.

As well, many organisations in the sector are small, lacking the organisational infrastructure that facilitates detailed enterprise-level bargaining. A major reason for this is that Government funding contracts often provide no scope for employers to offer above-award rates of pay, notwithstanding the qualifications and skills required of their employees, and labour shortages in the sector. As a result, the sector has been disproportionately reliant on wages and conditions in awards and Australian Pay and Classification Scales.

The Panel therefore has a direct role in influencing wages for employees in the sector. WACOSS calls upon the Panel to have regard for low paid employees in the community services sector, and the relative inability of the sector's employees and employers to engage in bargaining, when determining the federal minimum wage.

WACOSS estimates that the community services sector is 30% under-funded.¹³ The majority of shortfall relates to funds required to ensure agencies have the capacity to meet fair and just salary rates. This shortfall means that staff working in the sector are severely undervalued.

Research undertaken in 2008 by the WA Network of Alcohol and other Drug Agencies (WANADA), the WA Association of Mental Health (WAAMH), and the Women's Council for Domestic and Family Violence Services, shows that 85% of employees in the drug and alcohol, domestic violence and women's health fields have post-school qualifications. Of these, only 4% earn more than the average weekly wage. This undervaluing of the sector is also a gender pay equity issue, since 81% of workers in this underpaid sector are female.

¹¹ WACOSS (2008). *Close the Gender Pay Gap: Value Community Services*. p.10.

¹² WACOSS Submission to the Fair Pay Commission on Minimum Wages, p.14. (2008).

¹³ WACOSS Pre Budget Submission 2009 -10, p3

Community services sector employers are committed to improving salaries and conditions for their workforce. On 21st November 2008, 29 community sector employers launched Community Employers WA (CEWA). CEWA is registered under the Industrial Relations Act and has been established to enable community employers to advocate for fair and just wages for their staff. CEWA is calling for a 30% increase in government funding to all non-government, not-for-profit community services organisations. This will increase the capacity of organisations to pay staff fair and just wages and continue to provide vital community services to those who need them.

The gender pay gap in WA

WA has the largest gender pay gap (GPG) of any State in Australia, a gap much larger than the national average. The GPG in WA is 27.4%, which means that on average for every dollar earned by a full time male employee, a full time female employee earns only 72.6 cents. The national GPG is 17%¹⁴.

WA has had a larger GPG than the national average since the late-1980s, and the difference between the State gap and the National gap increased considerably in the early 1990s. Several studies¹⁵ have failed to fully explain why the GPG in WA is so much bigger than in the rest of Australia. Some commonly cited factors include the industrial relations changes in WA in the mid-1990s, which undermined wages in low-paid, female-dominated sectors, and the mining boom, which has significantly increased wages in high-paid, male-dominated sectors. These two factors have certainly contributed towards the widening gap in WA, but they do not fully explain WA's large and persistent gender pay gap.¹⁶

Research conducted by WACOSS in 2009¹⁷ found that increasing funding for the community services sector would significantly reduce the gender pay gap in WA. Without increased funding, employees (most of whom are women) will continue to receive unequal pay for work of equal or comparable value to that performed by other sectors.¹⁸ WACOSS' research paper is attached for your perusal.

The gender pay gap in Australia has become a major campaign issue for unions and community service organisations across the country. The Australian Council of Trade Unions (ACTU) has placed the issue on the federal election agenda. The focus will be on industrial campaigns in female-dominated industries such as aged care and the community services sector.¹⁹ The Australian Services Union (ASU) is also conducting a campaign calling for government intervention to address the gender pay gap.

¹⁴ ABS, *Average Weekly Earnings*, 6302.0, November 2008.

¹⁵ Crockett and Preston 1999 and Todd and Eveline, cited in WACOSS.(2009). *Close the Gender Pay Gap: Value Community Services*. (p.5).

¹⁶ WACOSS.(2009). *Close the Gender Pay Gap: Value Community Services*. (p.5). See http://www.wacoss.org.au/images/assets/SP_General/Close_The%20Gender_Pay_Gap.pdf

¹⁷ Ibid.

¹⁸ WACOSS (2008). *Close the Gender Pay Gap: Value Community Services*. p.3.

¹⁹ See <http://www.actu.org.au/Campaigns/EqualPay/default.aspx>

The cost of living for minimum wage earners

The headline CPI figure is inadequate as a measure of the cost of living for low income earners. This inadequacy is due to the composition and weighting of the basket of goods used to calculate the CPI. Price movements in goods and services that form a small part of low-income earners' budgets (for example, luxury goods and financial services) can offset price rises in vital goods and services such as food and housing. While the ABS' approach yields a useful and accurate measure of overall consumer price movements, WACOSS urges the Commission to have regard to the composition of low-income earners' budgets when judging the adequacy of any proposed minimum wage increase with respect to the cost of living.

In August 2009, WACOSS completed further research around cost of living pressures, and the impact this was having on low income West Australians. Headline figures showed that from 2007 to 2009, household costs increased by approximately \$105 a week, or 17.7%, just on basic living expenses. During the same period, income levels for minimum wage earners have increased by \$41, or 5.15%.²⁰

For a more detailed discussion of cost of living pressures facing low income West Australians, WACOSS' latest report is attached for your perusal.

Adding further pressure to West Australian households, a recent announcement from the State Government in March 2010 will see electricity tariffs rise by 7.5% from 1 April and by a further 10% on 1 July. This increase follows a 26% increase to electricity tariffs in 2009, and precedes State budget forward estimates of 12.9% in 2011-12 and 4.1% in 2012-13.²¹

WACOSS submits that the Panel must have regard to the true cost of living for low-income employees when determining the appropriate increase in minimum wages. An approach that only examines the 'headline' CPI figure is inadequate. An approach that merely aims to preserve the real value of the minimum wage by adjusting it by headline CPI will in fact represent a reduction in the minimum wage's real value.

Minimum wages and social inclusion

The living standards of low income households rest on three foundations: employment, minimum wage levels, and income support payments. All three play a vital role in preventing poverty. Policies that rely too heavily on one to the exclusion of the others pose risks for people on low incomes.²²

The adequacy of standards of living is always dependent on the societal context, and Australia has a long tradition of setting minimum wages with reference to community standards. The Panel must have regard to the need to foster social inclusion and arrest the trend towards increasing inequality in Western Australia. To do this, WACOSS advocates an increase in minimum wages that is no less than the Wage Price Index (WPI).

²⁰ WACOSS. (2009). The Rising Cost of Living in Western Australia. See http://www.wacoss.org.au/images/assets/SP_General/The_Rising_Cost_of_Living_in_WA_2009.pdf

²¹ WA State Budget 2009/10. Economic and Fiscal Outlook. (p.276).

²² ACOSS Submission to the Fair Pay Commission on Minimum Wages .p. 40

Participation in paid work promotes social inclusion not just by a person's inclusion in the labour market, but also through other benefits such as improved access to services, ability to participate in community and recreational activities, improved social networks, and better physical and mental health.

A report released by Fair Work Australia this year discussed the link between social inclusion and the function of minimum wages to act as a safety net for minimum wage earners.²³ It can be argued that higher minimum wages increase the incentive for people to move into employment, and for those underemployed to increase their hours of employment.

WACOSS would like the Panel to have regard for the effect of minimum wage increases on work incentives in relation to achieving better social inclusion outcomes.

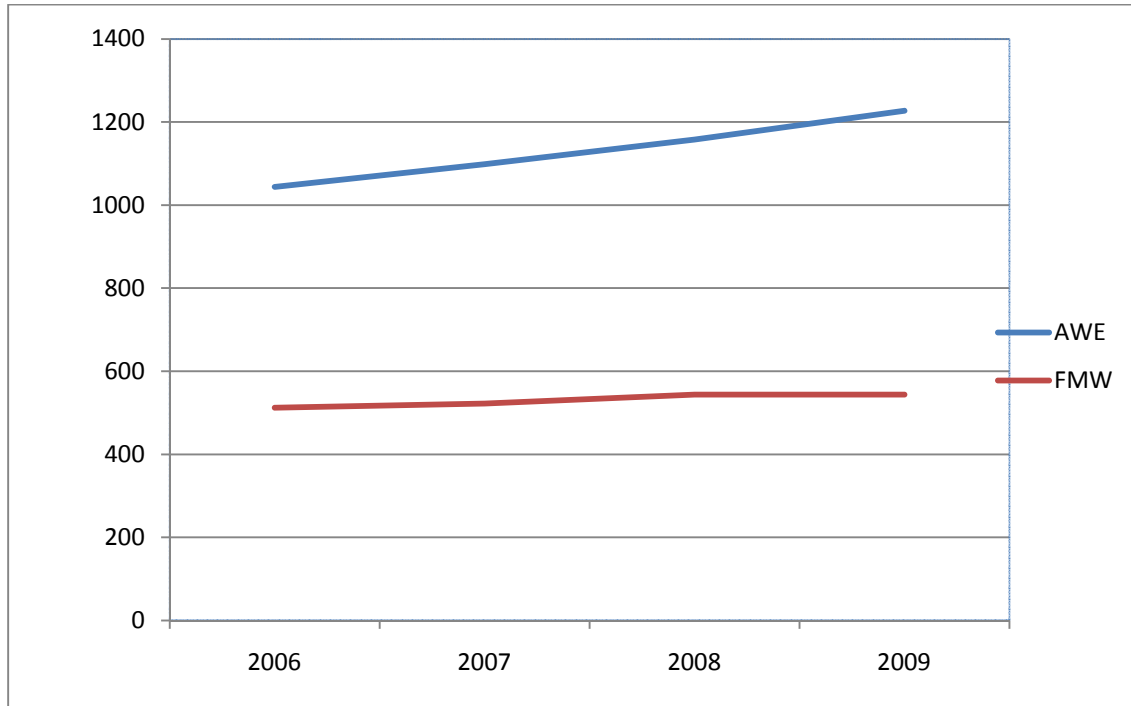
As outlined above, it is vital that low-income employees' earnings keep pace with the real cost of living. However, even an approach to minimum wage adjustment that holds the inflation-adjusted value of minimum wages constant will yield increasing social exclusion and inequality if the minimum wage falls behind community standards. If the minimum wage increases at a slower rate than average wages, then low-income earners become increasingly excluded and less able to keep up with societal norms.

Those experiencing 'working poverty' (persons employed but living below the poverty line) are likely to be the most reliant on award wages and welfare benefits, which are also not covering rises in the cost of living. This gives rise to the recommendation that the minimum wage be increased by reference to a figure that more accurately reflects average growth in wages. This will go some way to ensuring low income groups keep up with growth across the labour market.

The chart below shows that from the first wage setting decision made by the AFPC in 2006, the federal minimum wage has not kept pace with increases in average weekly ordinary earnings.

²³ Nelms, L. and Tsingas, Dr C. Fair Work Australia (2010). *Research Report 2/2010*. Literature review on social inclusion and its relationship to minimum wages and workforce participation

Chart 1: Federal Minimum Wage Compared with Average Weekly Earnings²⁴



Minimum wages and employment

The effect of minimum wages on unemployment is somewhat unclear. What we do know is that minimum wage increases have a direct and definite impact on the lives of those receiving them. WACOSS supports ACOSS' view that risking the living standards of those on minimum wages is not worth uncertain gains in employment, especially in still uncertain economic times.

While the most recent ABS figures show for WA that unemployment is steady at 5.0%²⁵, they mask growing ranks of underemployed men and women across the country. The latest ABS Labour Market Statistics report²⁶ shows that in November 2009, 13.5% of Australia's workforce was under-utilised, compared with 11% in November 2008.

As economic conditions remain sensitive, the demand for community services increases. The sector continues to provide employment prospects and other vital services to thousands of Western Australians. It is vital, therefore that employees, both in the community services sector and in the broader community, continue to receive modest increases in the federal minimum wage.

²⁴ Comparison of Federal Minimum Wage Decisions made from 2006 – 2009. See <http://www.fwa.gov.au/index.cfm?pagename=minprevious> and full time adult ordinary earnings, derived from the ABS 6302.0. Table 3. See <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6302.0Nov%202009?OpenDocument>

²⁵ ABS. (2010). Labour Force 6202. Table 8.

²⁶ ABS. (2010). Labour Market Statistics Report 6105.0.

Disadvantaged jobseekers

Apprentices and trainees

WACOSS shares ACOSS' view that apart from 'training wages', lower than minimum wages should only be paid to specific groups in the workforce in exceptional circumstances. If below minimum wages become too widespread, there is a risk that the minimum wage will be undermined. In addition, there is a danger that minimum wage workers will be displaced in favour of groups on sub-minimum wages.²⁷

Young people

Young people are generally paid less than adult minimum wages. Although unemployment among young people has declined over the past two decades, many still struggle to progress from school to secure employment. However, this is due mainly to such factors as poor educational outcomes and social disadvantage rather than the level of minimum wages for young people. There is no evidence to suggest that minimum wage levels for young people have adversely affected their employment prospects relative to others workers in other age groups.²⁸

People living in regional, rural and remote areas

Mining and resource towns in Western Australian, such as Port Hedland, have faced numerous challenges as their communities rapidly expand with fly-in-fly-out workers servicing the boom. Local residents and key workers are faced with extortionately high priced and inadequate accommodations options. Community service organisations cannot compete with high-paying mining and private sector companies, strengthening the case for modest minimum wage increases to low paid workers. Newly booming towns in the State's mid-West are beginning to face similar challenges as the Oakajee port and rail project starts to drive rapid expansion of the region. The City of Geraldton-Greenough is using the Port Hedland experience to inform many of their strategic planning decisions in order to minimise the negative impacts of the boom.

While significant regional labour market inequalities, including differences in unemployment rates exist, they are less pronounced in Australia than in other wealthy countries. The problem is best addressed by structural adjustment policies (such as retraining of displaced workers in regions where major industries decline) rather than by allowing employers in high-unemployment regions to pay wages below the national minimum.²⁹ Wages are already generally lower in rural and regional areas than in capital cities.

²⁷ ACOSS Submission to the Fair Pay Commission on Minimum Wages, p.49. (2008).

²⁸ ACOSS Submission to the Fair Pay Commission on Minimum Wages. (p.49). (2008).

²⁹ ACOSS Submission to the Fair Pay Commission on Minimum Wages. (p.51). (2008).

People with disabilities

The Way Forward - A New Disability Policy Framework for Australia, released by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), highlights some of the inequities faced by those with a disability:

Australia is not performing well in assisting people with disability to benefit from employment. Not only is Australia's rate of workforce participation by people with disability lower than most Organisation for Economic Co-operation and Development (OECD) countries, Australia's rate is actually declining while the employment rate of people with disability in like countries is increasing. The labour force participation rate of Australians with disability in 2003 was 53 per cent, compared with 81 per cent for people without disability. The unemployment rate was 8.6 per cent compared with 5 per cent for people without disability... Increasing the ratio of disabled-to-abled incomes in Australia to OECD average levels would represent an additional \$14.3 billion in yearly income³⁰

This is due in part to the lower productivity of workers with disabilities, but it cannot be attributed as the only factor. If workplaces were better equipped to facilitate workers with disabilities, they may in fact prove to be highly valuable and productive in their workplace.

To address the lower productivity levels of some people with disabilities, Australia has a Supported Wage Scheme. WACOSS supports the extension of the scheme to assist more employees with disabilities in a broader range of industries. WACOSS also endorses improvements to the strategy³¹ in order to increase the employment prospects of workers with disabilities.

The global economic downturn – a slow recovery

While WACOSS acknowledges that the economy is showing signs of recovery, we assert that there are still many West Australians families continuing to lose out as a result of the economic downturn.

Agencies on the ground are still facing increased demand for their services, and this looks set to continue. The WA No Interest Loans Scheme (WA NILS), which provides assistance to low income households to purchase essential items, is processing 160 loan applications per month, or 40 per week. Their capacity to extend their service is severely undermined by staffing levels, which due a lack of funding increases have remained constant (4FTE), since 2000.

The Financial Counsellors' Association of WA is also struggling to keep up with growing demand, with the wait list for appointments to see a financial counselor ballooning to 4 weeks.

A drop in interest rates had provided some reprieve to those able to manage their mortgage repayments without resorting to using micro credit solutions. Interest rates have begun to rise again though, with the Reserve Bank of Australia (RBA) announcing its fourth rate rise this financial year. The RBA raised the cash rate by 0.25 percentage

³⁰ FaHCSIA. (2009). *A Way Forward – A New Disability Policy Framework for Australia*. (p.44).

See http://www.fahcsia.gov.au/sa/disability/pubs/policy/way_forward/Documents/part7.htm

³¹ ACOSS *Submission to the Fair Pay Commission on Minimum Wages*, p.52. (2008).

points in early March 2010, bringing it to 4%. Rates rose by the same amount in October, November and December 2009.

WACOSS sounded the warning then that many more West Australians could be joining the growing ranks of families facing severe mortgage stress as a result of this decision. This can be supported by data released by Fujitsu Consulting, stating that in February 2010 there were some 218,700 Australian households at risk of having to sell, refinance or lose their homes.³²

To cope with mortgage pressure and other household expenses, many people are still incurring high levels of personal debt as a result of using credit cards to manage their financial situation. Low income people are disproportionately represented in this group.

Modest increases to the federal minimum wage are vital, so that West Australians in mortgage stress are somewhat protected from falling further into debt and severe financial hardship. Increases in the federal minimum wage may also play an important part in preserving consumer confidence in an increasingly uncertain market.

Conclusion

WACOSS again thanks Fair Work Australia for the opportunity to input into this process. We have endeavoured to highlight issues relevant to Western Australia, and hope our submission has been of use in this way.

Attachments

WACOSS (2008) *Close the Gender Pay Gap: Value Community Services*
WACOSS (2009) *The Rising Cost of Living in Western Australia*

³² Fujitsu Consulting. Stress-o-Meter. See https://www-s.fujitsu.com/au/whitepapers/february_2010_mortgage_stress_report.html