



**Fair Work Commission — Annual Wage Review 2017-18**  
Post-Budget Submission from the Government of South Australia  
May 2018

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## **INTRODUCTION**

1. The Government of South Australia welcomes the opportunity to make this submission to the Expert Panel of the Fair Work Commission (the Panel) for its consideration as part of the Annual Wage Review (AWR) 2017-18.
2. The Government notes the current economic context within which the Panel is required to make its decision including low underlying inflation and wages growth and provides specific South Australian data to assist it in its deliberations.
3. The Government does not recommend a specific increase to the national minimum wage as part of this submission. Instead it recommends that the Panel take a conservative, modest approach which recognises the impact on business, employment growth, inflation and the sustainability, performance and competitiveness of the national economy. The Panel should also have regard to the personal tax income reductions included in the 2018 Commonwealth Budget.

## THE STATUTORY CONTEXT

### South Australia's Referral of Industrial Relations Powers

4. The *Fair Work (Commonwealth Powers) Act 2009* (the Referral Act) referred certain South Australian industrial relations powers to the Commonwealth. As part of the referral arrangements, South Australia signed the Multilateral Intergovernmental Agreement for National Workplace Relations System for the Private Sector (IGA).
5. As a referring State, the Government of South Australia was closely involved in the development of the current workplace relations framework and was pivotal in identifying the fundamental workplace relations principles which provided the foundations of that framework. These principles are:
  - a strong, simple and enforceable safety net of minimum employment standards;
  - genuine rights and responsibilities to ensure fairness, choice and representation at work, including the freedom to choose whether or not to join and be represented by a union or participate in collective activities;
  - collective bargaining at the enterprise level with no provision for individual statutory agreements;
  - fair and effective remedies available through an independent umpire;
  - protection from unfair dismissal;
  - an independent tribunal system; and
  - an independent authority able to assist employers and employees within a national workplace relations system.
6. The South Australian public sector, including almost all Government Business Enterprises (with the exception of SA Water and the Rail Commission), and the local government sector, remains in South Australia's industrial relations system subject to the *Fair Work Act 1994* (SA).
7. Accordingly, any National Minimum Wage (NMW) Order and determination on modern award minimum wages made by the Panel affects the whole of South Australia's private sector and will likely continue to influence South Australia's State Wage Case determination for government and local government workers later in 2018.

## *Fair Work Act 2009 (Cth)*

8. In making a NMW Order, the Panel must take into account the following sections of the *Fair Work Act 2009* (Cth) (FW Act):

### ***Section 3: Object of this Act***

*The object of this Act is to provide a balanced framework for co-operative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians by:*

- (a) *providing workplace relations laws that are fair to working Australians, are flexible for businesses, promote productivity and economic growth for Australia's future economic prosperity and take into account Australia's international labour obligations; and*
- (b) *ensuring a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions through the National Employment Standards, modern awards and national minimum wage orders;*

### ***Section 284: The minimum wages objective***

*What is the minimum wages objective?*

*284(1) The FWC must establish and maintain a safety net of fair minimum wages, taking into account:*

- (a) *the performance and competitiveness of the national economy including productivity, business competitiveness and viability, inflation and employment growth; and*
- (b) *promoting social inclusion through increased workforce participation; and*
- (c) *relative living standards and the needs of the low paid; and*
- (d) *the principle of equal remuneration for work of equal or comparable value; and*
- (e) *providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

9. In reviewing modern award minimum wages the Panel must also take these matters into account, as well as the modern awards objective in section 134 of the FW Act.

## AWARD RELIANCE

10. Recently released Australian Bureau of Statistics' (ABS) data from the Employee Earnings and Hours (EEH) survey<sup>1</sup> provides the latest estimates of the number of employees that are 'award only', otherwise referred to as 'award reliant'. The ABS classifies employees as award only if they are paid at the rate of pay specified in the award, and are not paid more than that rate of pay.
11. According to the latest ABS data, in Australia, 22.4% of all employees (2,276,100 out of 10,147,000 employees) are classified as award only.<sup>2</sup> This compares with 18.8% from the previous survey<sup>3</sup> and continues the upward trend of the number of award reliant workers in Australia.
12. In South Australia, 137,900 (21.8%) employees are paid award only.<sup>4</sup> This is up 6% from the 2014 EEH survey and is one of the highest levels of award reliance in South Australia since this data was first collected. In 2016, data was provided for non-managerial employees, showing that 23.3 per cent of South Australian non-managerial employees were award only (compared with 24.5 per cent nationally).
13. The ABS data for South Australia incorporates both the private and public sectors, with local government included in its definition of public sector. South Australia's public sector (as defined by the ABS) is covered by our State industrial relations system and most of these workers are paid pursuant to enterprise agreements. Therefore the amount of award reliant private sector workers in South Australia should not be significantly less than the overall EEH survey estimates.
14. The latest EEH survey<sup>5</sup> confirms that three industry sectors continue to have the highest proportion of award reliant non-managerial employees in Australia<sup>6</sup>. These are:
  - Accommodation and food services (42.7%);
  - Administrative and support services (42.1%); and
  - Retail trade (34.5%).
15. It should also be noted that the 2013 Award Reliance Research Report<sup>7</sup> (the ARR Report), which examined award reliance in the non-public sector, revealed that modern awards are used as the basis for setting rates of pay for far more employees than just low-wage employees on minimum award rates.

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<sup>1</sup> ABS, Cat no. 6306.0 – *Employee Earnings and Hours (EEH), Australia, May 2016*

<sup>2</sup> ABS, Cat no. 6306.0 – *EEH, Australia, May 2016*

<sup>3</sup> ABS, Cat no. 6306.0 – *EEH, Australia, May 2014*

<sup>4</sup> ABS, Cat no. 6306.0 – *EEH, Australia, May 2016*

<sup>5</sup> ABS, Catalogue no. 6306.0 - *EEH, Australia, May 2016*

<sup>6</sup> State breakdown not available

<sup>7</sup> Wright S and Buchanan J (2013) *Award reliance*, Research Report 6/2013, Fair Work Commission

16. The ARR Report confirmed previous anecdotal evidence that increases to minimum award rates are passed on to many over-award workers, particularly those whose over-award payment is not significantly higher than the award rate.

## THE GOVERNMENT OF SOUTH AUSTRALIA POSITION

17. The South Australian Government's submission to the AWR 2017-18 does not recommend a specific increase to national minimum wages but recommends that the Panel should take a conservative, modest approach in setting these wages. The Panel should also have regard to the personal tax income reductions included in the 2018 Commonwealth Budget. The Government in particular recognises the following elements of the modern award objective in section 134 of the FW Act:

- (f) *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and*
- (h) *the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.*

The Government also places emphasis on section 284(1)(a) of the FW Act, covering the following part of the minimum wages objective:

- (a) *the performance and competitiveness of the national economy including productivity, business competitiveness and viability, inflation and employment growth.*

18. The rationale for the position taken in this year's submission seeks to support an outcome in relation to the national minimum wage which can underpin improved economic and labour market performance in South Australia which will in turn support employment and incomes for the low paid.

19. Sustainable employment and income growth, including for the low paid, relies heavily on a range of broader factors including establishing an environment conducive to investment, productivity and ultimately jobs growth. The South Australian government is implementing a range of initiatives to improve economic and labour market performance in the State, including:

- reducing the burden of payroll tax - The South Australian Government is currently preparing legislation to exempt all businesses with annual payrolls of less than \$1.5 million from liability for payroll tax, effective from 1 January 2019. This exemption will remove a major disincentive to businesses, creating more jobs and employing more people, as well as making South Australia a much more attractive place in which to invest and grow business.

- introducing legislation to deregulate retail shop trading hours to allow businesses to remain open, South Australians to keep working and consumers to continue buying what they want, when they want.
  - establishing a South Australian Productivity Commission to provide advice on issues such as improving the efficiency of government services, regulatory reform to cut red tape and economic reforms to lift private sector productivity, and employment and improve living standards
  - providing better interconnection with the National Electricity Market (NEM), to increase network stability and drive down prices. Two key elements include:
    - a \$200 million interconnection fund to improve connectivity with the National Electricity Market, and
    - a \$100 million household battery program.
20. The South Australian Government acknowledges the importance of the FWC setting an adequate safety net for minimum wage and award reliant workers. However it argues that if the FWC adopts a modest, conservative approach to setting the NMW and modern award minimum wages for AWR 2017-18 and governments use other available mechanisms to stimulate wages growth, this arguably is a more sustainable, economically responsible course that will benefit businesses and these workers.

# ECONOMIC FACTORS

## International economy

21. The global economy grew by an estimated 3.8 per cent in 2017, following growth of 3.2 per cent in 2016. In the April 2018 World Economic Outlook, the International Monetary Fund (IMF) forecast global output to rise by 3.9 per cent in 2018 and 2019.
22. Forecast economic growth remains uneven between developed and emerging economies. Large advanced economies are forecast by the IMF to post continuing steady growth of 2.5 per cent in 2018 followed by 2.2 per cent growth in 2019. Stronger growth is forecast for emerging and developing economies—4.9 per cent in 2018 and 5.1 per cent in 2019. The Chinese economy is forecast to grow at 6.6 per cent in 2018 and by 6.4 per cent in 2019.
23. The IMF notes that world growth *has become broader and stronger, commenting that “advanced economies as a group will continue to expand above their potential growth rates this year and next before decelerating, while growth in emerging market and developing economies will rise before levelling off”*. The IMF also states that “[w]hile upside and downside risks to the short-term outlook are broadly balanced, risks beyond the next several quarters clearly lean to the downside”.<sup>8</sup>

## Australian economy

24. Over the year to the December quarter 2017, Australia’s gross domestic product (GDP) grew by 2.4 per cent. Private and public consumption, along with private business investment, contributed to the growth. Private non-mining business investment increased against a backdrop of positive confidence (particularly in respect of the high level of dwelling investment in New South Wales and Victoria).
25. The Reserve Bank of Australia’s (RBA’s) latest outlook for the Australian economy (February *Statement on Monetary Policy*) is for GDP growth of 2 $\frac{3}{4}$  per cent in 2017-18, picking up to 3 $\frac{1}{4}$  per cent in 2018-19 and remaining at that rate in 2019-20. The RBA says the economy will strengthen as “...the drag from mining investment comes to an end and accommodative monetary policy provides ongoing support for growth in household income and consumption, and non-mining business investment”.<sup>9</sup>
26. Underlying inflation is expected to remain subdued over the forecast period—forecast to be 1 $\frac{3}{4}$  per cent in 2017-18, rising moderately to 2 $\frac{1}{4}$  per cent by the end of the forecast period in 2019-20.
27. The seasonally adjusted unemployment rate was 5.5 per cent in March 2018, down from 5.9 per cent recorded a year earlier. The Commonwealth Mid-Year Economic and Fiscal

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<sup>8</sup> International Monetary Fund, *World Economic Outlook*, April 2018

<sup>9</sup> Reserve Bank of Australia, *Statement on Monetary Policy*, February 2018, page 63

Outlook (MYEFO) forecasts the unemployment rate to be 5½ per cent in the June quarter 2018 before declining to 5¼ per cent in the June quarter 2019 and remaining around that rate through to the end of the forward estimates in 2020-21.

28. Wages rose by 2.1 per cent in the year to the December quarter 2017 (based on the ABS' hourly rate of pay index, excluding bonuses), slightly higher than the 1.9 per cent record low recorded in the year to the June quarter 2017.
29. The consumer price index (CPI) in the year to the March quarter 2018 grew by 1.9 per cent, 0.2 of a percentage point lower than in the March quarter 2017 (2.1 per cent).
30. The RBA measures of underlying inflation increased by 0.5 per cent in the March quarter and by 2.0 per cent over the year. These relatively subdued outcomes are consistent with modest growth in labour costs and spare capacity in the economy.
31. Measures of underlying inflation are forecast by the RBA to pick up gradually from around 1¾ per cent at the end of 2018 to 2¼ per cent by 2019-20.
32. The Reserve Bank of Australia's latest forecasts for the Australian economy, published in its Statement on Monetary Policy on 9 February 2018, are presented below.

**Table 1: Output Growth and Inflation Forecasts<sup>(a)</sup> (per cent)**

	Year-ended					
	Dec 2017	Jun 2018	Dec 2018	Jun 2019	Dec 2019	Jun 2020
GDP growth	2½	2¾	3¼	3½	3¼	3
Unemployment rate <sup>(b)</sup>	5.5	5¼	5¼	5¼	5¼	5¼
CPI inflation	1.9	2	2¼	2¼	2¼	2¼
Underlying inflation	1¾	1¾	1¾	2	2	2¼
Year-average						
	2017	2017/18	2018	2018/19	2019	2019/20
GDP growth	2¼	2¾	3	3¼	3¼	3¼

(a) Technical assumptions include A\$ at US\$0.78, TWI at 64, Brent crude oil price at US\$64 per barrel; shaded regions are historical data

(b) Average rate in the quarter

Sources: ABS; RBA

## ***South Australian economy***

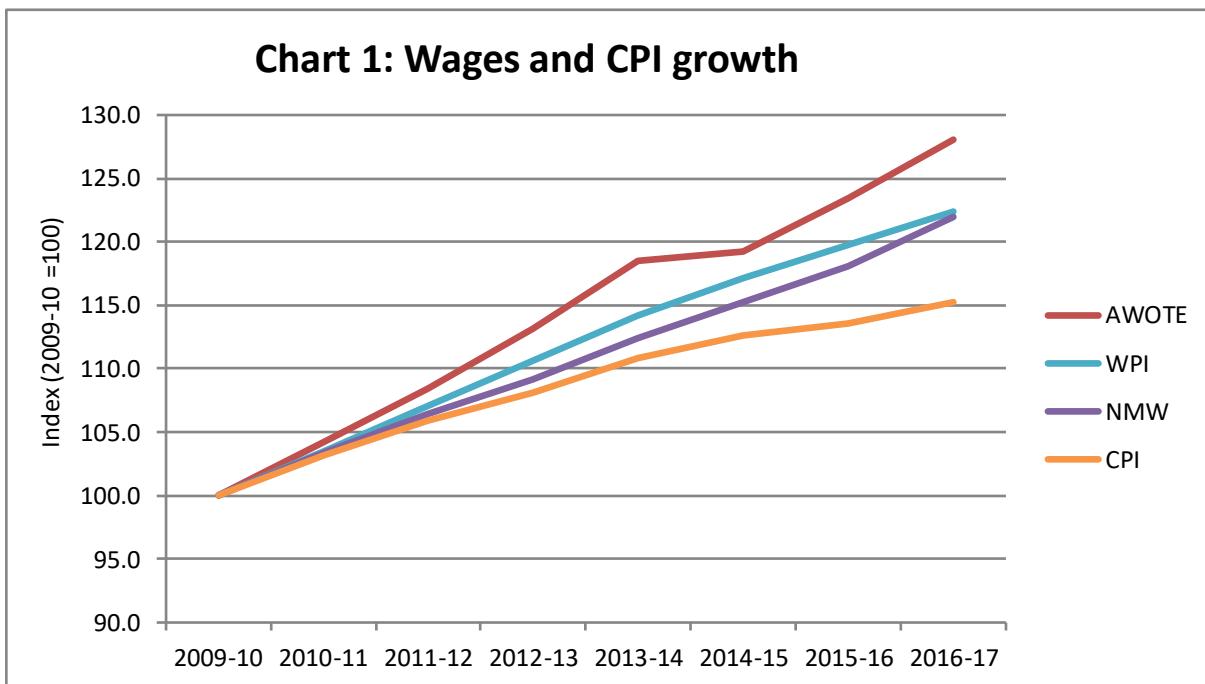
33. The South Australian economy has seen mixed results across its industry sectors. Industry sectors contributing most to GSP growth of 2.2 per cent in 2016-17 were agriculture, forestry and fishing, healthcare and social assistance, wholesale trade, and finance and insurance services. Industry sectors detracting most from GSP growth were construction, mining, and professional, scientific and technical services.
34. Employment in the industry sectors considered to have the highest proportion of award reliant employees<sup>10</sup> (accommodation and food services; administrative and support services; retail trade) have shown a decline in employment in the year to February 2018 compared with the year to February 2017. Employment in the retail industry sector declined by 1,300 persons (or 1.4 per cent), by 900 persons in administrative and support services (2.8 per cent) and by 700 in accommodation and food services (1.3 per cent)<sup>11</sup>. Nationally, employment fell in the administrative and support services industry (down 25,900 or 5.9 per cent), but rose in the retail (up 51,200 or 4.1 per cent) and accommodation and food services (up 32,600 or 3.8 per cent) industries.
35. Furthermore, the February report of the Bank SA State Monitor shows community services and wholesale/retail industries to be the least confident in the state, with the latter having a low intention to create new employment.
36. In March 2018, the trend unemployment rate was 5.9 per cent, 0.4 of a percentage point higher than the Australian rate.
37. Underemployment is above average in South Australia and as a result the overall trend labour force underutilisation rate was 15.6 percent in February 2018, above the national rate of 13.8 per cent, and indicative of greater spare capacity in the labour market than suggested by the official unemployment rate.
38. According to the Wage Price Index, wages growth in South Australia in the year to the December quarter 2017 was 1.9 per cent, slightly lower than the 2.1 per cent growth nationally. In South Australia, private sector hourly rates of pay increased by 2.1 per cent through the year to the December quarter 2017 while public sector hourly rates of pay increased by 1.8 per cent.
39. In the seven years since 2009-10, the NMW has increased by 21.9 per cent, similar to growth in the wage price index (WPI)<sup>12</sup> and above the growth in CPI inflation of 15.3 per cent—see Chart 1.

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<sup>10</sup> ABS Cat no. 6306.0, Employee Earnings and Hours, Australia, May 2016 (latest available and updated biennially)

<sup>11</sup> ABS Cat no. 6291.0.55.003

<sup>12</sup> The WPI measures changes in the wages and salaries paid by employers for a unit (i.e. hour) of labour where the quality and quantity of labour are held constant.



Sources: ABS, Consumer Price Index, Cat. No. 6401.0  
 ABS, Average Weekly Earnings, Cat. No. 6302.0  
 ABS, Wage Price Index, Cat. No. 6345.0  
 Award Wage Rate, SafeWork SA

## CONCLUSION

40. The Government of South Australia recognises that a key objective of establishing national minimum wages is that they provide a safety net for the low-paid.
41. Equally, the Government recognises the following elements of the modern award objective in the FW Act:
  - (f) *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and*
  - (h) *the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.*

The Government also places emphasis on section 284(1)(a) of the FW Act (Cth), covering the following part of the minimum wages objective:

- (b) *the performance and competitiveness of the national economy including productivity, business competitiveness and viability, inflation and employment growth;*

Further to this, the Government of South Australia believes that the maintenance of a safety net of fair minimum wages must reflect general economic conditions and the needs of business.

43. The Government of South Australia submits that in AWR 2017-18, the Panel should take a conservative, modest approach in setting the minimum wages. The Panel should also have regard to the personal tax income reductions included in the 2018 Commonwealth Budget. The rationale for this position centres around improving economic and labour market performance in South Australia, the current low inflation and wage growth environment, together with the philosophy that governments should seek to improve wages growth through other available mechanisms, such as cutting red tape and the tax burden on businesses.