

Fair Work Commission Expert Panel

Annual Wage Review 2020-21

Submission from the Government of South Australia

March 2021



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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) 2020-21.
2. Under the current national workplace relations framework, the Government of South Australia considers that minimum wages have been maintained at a level that provides a safety net for minimum wage and award-reliant workers, whilst continuing to act as a relevant benchmark to underpin enterprise bargaining.
3. The Government of South Australia does not recommend a specific increase to the national minimum wage, but recommends that the Panel take a cautious and prudent approach, consider the impact on business, employment growth, inflation and the sustainability, performance and competitiveness of the national economy, and the employment prospects for award-reliant employees. Many businesses are continuing to experience impacts from measures to contain the spread of COVID-19, while the Commonwealth Government's JobKeeper economic support program is due to be phased out at the end of March 2021.

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. The South Australian public sector, including almost all Government Business Enterprises (with the exception of SA Water and the Rail Commissioner), and the local government sector, remains in South Australia's industrial relations system subject to the *Fair Work Act 1994* (SA).
6. 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. Such a determination will likely influence South Australia's State Wage Case determination for state and local government workers later in 2021.

Fair Work Act 2009 (Cth)

7. 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.
8. In reviewing modern award minimum wages the Panel must take these matters into account, as well as the modern awards objective in section 134 of the FW Act.
 9. The Government of South Australia 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.*

Award Reliance

10. The Australian Bureau of Statistics' (ABS) Employee Earnings and Hours survey classifies employees by different methods of setting pay; these being 'award only', 'collective agreement', and 'individual arrangement'. Employees are classified as 'award only' (otherwise referred to as 'award-reliant') if they are paid at (and not above) the rate of pay specified in the award.
11. According to the 2018 survey (the most recent data available), 22.5 per cent (2,232,900) of non-managerial employees in Australia are classified as 'award only'. This was higher than the corresponding figure of 20.4 per cent in 2014, but below the 24.5 per cent reported in 2016.¹
12. In South Australia, the number of non-managerial employees classified as 'award only' has risen consistently from 99,200 in 2014 to 137,900 in 2016, to 165,000 in 2018 – 25.3 per cent of all non-managerial employees (above the corresponding national share).
13. Over the same period in South Australia, the proportion of non-managerial employees covered by a collective agreement has declined from 50.3 per cent in 2014 to 41.2 per cent in 2018.
14. At the national level, industries with the highest proportion of non-managerial employees classified as 'award only' in 2018, are:
 - Accommodation and food services (44.9 per cent)
 - Administrative and support services (41.3 per cent)
 - Other services (38.1 per cent)
 - Health care and social assistance (31.7 per cent)
 - Retail trade (30.1 per cent).²

¹ ABS – *Employee Earnings and Hours (EEH), Australia, May 2014, May 2016 and May 2018*, data cube 5, table 5 (formerly Cat No 6306.0).

² *ibid*, table 4 (state-level breakdowns not published).

15. Non-managerial employees in smaller businesses are more likely to be award-reliant than in larger businesses. At the national level in 2018, for businesses with under 20 employees, 34.6 per cent of employees were award-reliant, compared to the average of 22.5 per cent for all businesses.³
16. As of June 2017, the proportion of employees working in small businesses is similar in South Australia (43.5 per cent) to the national average (43.8 per cent).⁴ Small business is a significant contributor to total employment at the national level and in South Australia. The significant impact on small business, an important sector of the economy, will need to be taken into account by the Panel in making its determination.
17. The outcome of last year's (2019-20) AWR was an increase of 1.75 per cent in the NMW. This decision (announced on 19 June 2020, effective conditionally from 1 July 2021) lifted the NMW to \$753.80 per week, or \$19.84 per hour. The timing of the increase was staggered to recognise the impact of COVID-19 on some industries.
 - For industries less affected by the pandemic (Group 1) the increase took effect from 1 July 2020. This included Awards covering frontline health care and social assistance workers, teachers and child care workers, and essential services who continued to work throughout the pandemic.
 - For industries moderately affected (Group 2) the increase was effective from 1 November 2020. These Awards cover workers in construction, manufacturing, and a range of other industries.
 - For industries severely affected (Group 3) the increase became effective from 1 February 2021. This covered workers in accommodation and food services, arts and recreation services, aviation, retail trade, and tourism.
18. Any changes to the national minimum wage should take into consideration the timing of last year's staggered increase on relevant industry groups.

The Government of South Australia's Position

19. The Government of South Australia's submission to the AWR 2020-21 does not recommend a specific increase to national minimum wages, and submits that the Panel adopt a cautious and prudent approach, give particular consideration to possible business fragility in the current economic climate, particularly in respect of capacity to support increased costs of labour at this time.
20. Consideration should be given to last year's staggered increase on relevant industry groups and to the possible impact on businesses of the removal of government supports at the end of March 2021.
21. 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 that will in turn support

³ *ibid*, table 7 (state-level breakdowns not published).

⁴ ABS Australian Industry 2018-19 (formerly Cat No 8155.0), customised report, quoted in Gilfillan, G. *Small business sector contribution to the Australian economy*, Parliamentary Library research paper, 15 October 2018.



employment and incomes for those on minimum wages. This position reflects the need for a healthy balance between income and jobs, where a larger increase to wages may have an adverse impact on unemployment rates.

22. Sustainable employment and income growth, including for award-reliant workers, depends heavily on a range of broader factors including establishing an environment conducive to investment, productivity and ultimately jobs growth.
23. The South Australian Government has implemented a range of initiatives to improve economic and labour market performance in the state, to raise productivity and improve the competitiveness of the state's industries, increase the demand for skilled labour and higher value jobs, and raise the standard of living. Some of the government's initiatives include:
 - Reducing the burden of payroll tax – the Government of South Australia has passed legislation to exempt all small businesses from liability for payroll tax. This exemption has removed a major disincentive to businesses, creating more jobs and employing more people, as well as making South Australia a significantly more attractive place in which to invest and grow business.
 - Payroll tax relief during the COVID-19 pandemic, including:
 - an exemption of all Commonwealth JobKeeper payments from payroll tax;
 - a 15-month waiver of payroll tax due over the period April 2020 to June 2021 for businesses and business groups with annual Australian grouped wages below \$4 million;
 - a six-month waiver of payroll tax due over the period January 2021 to June 2021 for businesses that are eligible for the extended Commonwealth JobKeeper payment from 4 January 2021;
 - payroll tax deferrals for businesses with Australian grouped wages above \$4 million, where the business was adversely impacted by COVID-19; and
 - A 12-month payroll tax exemption for wages paid to eligible new apprentices and trainees who commence a relevant contract of training with an employer from 10 November 2020 to 30 June 2021 to encourage the employment of workers retraining and younger South Australians seeking to enter the workforce.
 - Improving the skills and experience of South Australians to meet the needs of the workforce, through the continued Skilling South Australia initiative, a \$200 million partnership with the Commonwealth Government that has created more than 25,000 apprentices and trainees in the first two years. Further, South Australia has continued to achieve nation leading percentage increases in apprenticeships. In the year to 30 June 2020, the number of apprentice and trainee commencements in South Australia increased by 2.1 per cent when compared to the same period a year earlier. This was the only increase in the nation.
24. The Government of South Australia acknowledges the importance of the Fair Work Commission (FWC) setting a safety net for minimum wage and award-reliant workers. The Government submits for the adoption of an informed and well considered strategy in this current COVID-19 environment for setting the NMW and modern award minimum wages for AWR 2020-21, and that the use by governments of other

available mechanisms to support growth in living standards and employment, is a sustainable, economically responsible course that will benefit these workers and the businesses that employ them, and meet the minimum wages objective and the object of the FW Act.

25. The COVID-19 pandemic, and measures put in place to contain the spread of the virus, continue to have an adverse impact in the trading conditions for retail and tourism related industries that employ a high proportion of workers on the national minimum wage.

Economic Factors

International economy

26. The global economy contracted by an estimated 3.5 per cent in 2020, following growth of 2.8 per cent in 2019. In the January 2020 World Economic Outlook Update, the International Monetary Fund (IMF) forecast global output to rise by 5.5 per cent in 2021 and by 4.2 per cent in 2022.
27. The IMF forecast for a rise in global economic growth in 2021, was upwardly revised from the October release of the World Economic Outlook (WEO), in-line with the stronger-than-expected momentum in the second half of 2020. Advanced economies are forecast by the IMF to post growth of 4.3 per cent in 2021, followed by growth of 3.1 per cent in 2022. Stronger growth is forecast for emerging market and developing economies — 6.3 per cent in 2021 softening to 5.0 per cent growth in 2022. The Chinese economy is forecast to grow at 8.1 per cent in 2021 and moderate to 5.6 per cent in 2022.
28. The IMF comments that the approval of multiple vaccines and the launch of vaccination programs in some countries in December have raised hopes of an eventual end to the pandemic. In addition, economic data released after the October 2020 WEO “suggest stronger-than-projected momentum on average across regions in the second half of 2020” and that “...economic activity appears to be adapting to subdued contact-intensive activity with the passage of time”. Additional policy measures announced at the end of 2020, most notably in the United States and Japan “... indicate a stronger starting point for the 2021-22 global outlook than envisaged in the previous forecast”.⁵
29. Although there have been positive developments, the IMF states that the “surging infections in late 2020 (including from new variants of the virus), renewed lockdowns, logistical problems with vaccine distribution, and uncertainty about the take-up are important counterpoints to the favourable news”. How these developments are handled will have important implications for the global outlook.

⁵ International Monetary Fund, *World Economic Outlook Update*, January 2021

Australian economy

30. In the financial year 2019-20, Australia's gross domestic product (GDP) contracted by 0.2 per cent. This contraction largely resulted from the COVID-19 pandemic and restrictions implemented to contain it, with two consecutive contractions in the first half of 2020 — 0.3 per cent in the March quarter and 7 per cent in the June quarter (seasonally adjusted). Contributing to the contraction in 2019-20 GDP were household consumption, dwelling and private business investment. Partly offsetting the decreases was growth in public consumption and investment. In the September and December quarters of 2020, GDP grew by 3.4 per cent and 3.1 per cent respectively, driven in particular by a recovery in household consumption following the large fall in the June quarter.
31. The Commonwealth Treasury's latest published forecast is for Australia's GDP to grow by $\frac{3}{4}$ per cent in 2020-21⁶ while the corresponding forecast of the Reserve Bank of Australia (RBA) is for no annual GDP growth in 2020-21 before returning to growth in 2021-22.⁷
32. The timing for a return to growth in GDP forecasts is subject to a range of assumptions about the spread of the COVID-19 virus, the level of adoption of a vaccine, and the timing for when international travel restrictions are lifted, and people feel safe to travel internationally.
33. The RBA comments that "*[t]he recovery in the domestic economy has been sustained over recent months...*"⁸ largely due to better health outcomes and further expansion in monetary and fiscal policy in the second half of last year.
34. Despite this recovery, the RBA notes that "The economy is now transitioning beyond the initial 'snapback' phase, which was underpinned by favourable health outcomes, faster-than-expected lifting of activity restrictions and very substantial policy support." The nature and speed of the next phase of the domestic recovery "remains uncertain and is expected to be uneven for some time yet". A significant uncertainty is how households and businesses will respond and adapt to the tapering of some fiscal and other temporary support measures over coming quarters.
35. The RBA says that the outlook for GDP growth in Australia's major trading partners is a little stronger than for the rest of the world. This is mainly because large trading partners, such as China and a few advanced east Asian economies, have successfully suppressed infections and are benefitting from a strong recovery in their merchandise exports.
36. The seasonally adjusted unemployment rate was 6.4 per cent in January 2021, up from 5.3 per cent recorded a year earlier. The seasonally adjusted under-employment rate was 8.1 per cent in January 2021, bringing the rate of under-utilisation to 14.5 per cent. This suggests that the labour market has spare capacity to absorb before anything more than gradual upward pressure is generated for wage and price inflation.

⁶ Commonwealth of Australia, *Mid-Year Economic and Fiscal Outlook 2020-21*, Table 1.1, page 3

⁷ Reserve Bank of Australia, *Statement on Monetary Policy*, 5 February 2021, Table 5.1, page 63

⁸ *ibid*, page 61

37. The RBA comments that wages growth has "...eased further from already low rates.

Many employers have responded to the economic challenges of the pandemic by delaying wages increases, imposing wage freezes and, in some cases, temporary wage cuts. Forward indicators suggest wages growth will remain soft this year."⁹

38. Wages rose by 1.4 per cent in the year to the September quarter 2020 (based on the ABS Wage Price Index for hourly rates of pay, excluding bonuses).

39. The 0.9 per cent rise in the consumer price index (CPI) in the year to the December quarter 2020 was 0.9 of a percentage point lower than in the December quarter 2019 (1.8 per cent).

40. The average of the RBA measures of underlying inflation increased by 0.5 per cent in the December quarter and by 1.3 per cent over the year.

41. The RBA expects measures of underlying inflation to remain subdued, with both underlying price inflation and wages growth expected to remain below 2 per cent over the forecast period, out to mid-2023.

42. The RBA's latest forecasts for the Australian economy, published in its Statement on Monetary Policy on 4 February 2021, are shown below.

Table 1: Output Growth and Inflation Forecasts (per cent)

	Year-ended					
	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	June 2023
GDP growth	-2	8	3½	3½	3½	3
(previous)	(-4½)	(6)	(4½)	(3½)	(3½)	(n/a)
Unemployment rate ^(c)	6.8	6½	6	5½	5½	5¼
(previous)	(7¾)	(7¼)	(6¾)	(6½)	(6¼)	(n/a)
CPI inflation	0.9	3	1½	1½	1½	1¾
(previous)	(½)	(2¼)	1	(1¼)	(1½)	(n/a)
Trimmed mean inflation	1.2	1¼	1¼	1½	1½	1¾
(previous)	(1)	(1¼)	(1)	(1¼)	(1½)	(n/a)
Year-average						
	2020	2020/21	2021	2021/22	2022	2022/23
GDP growth	-2½	0	4	4	3½	3
(previous)	(-3½)	(-2)	(3)	(4½)	(3½)	(n/a)

(a) Forecasts finalised on 3 February. Forecast assumptions (November Statement in parenthesis): TWI at 63 (60), A\$ at US\$0.76 (US\$0.70), Brent crude oil price at US\$56/bbl (US\$42/bbl); the cash rate remains around its current level and other elements of the Bank's monetary stimulus package are in line with the announcements made following the February 2021 Board meeting.

(b) Rounding varies: GDP growth to the nearest half point; unemployment rate and inflation rate to the nearest quarter point. Shaded regions are published historical data and are shown to one decimal place. Figures in parentheses show the corresponding baseline scenario forecasts in the November 2020 Statement.

(c) Average rate in the quarter.

Sources: ABS; RBA

⁹ *Ibid*, page 2

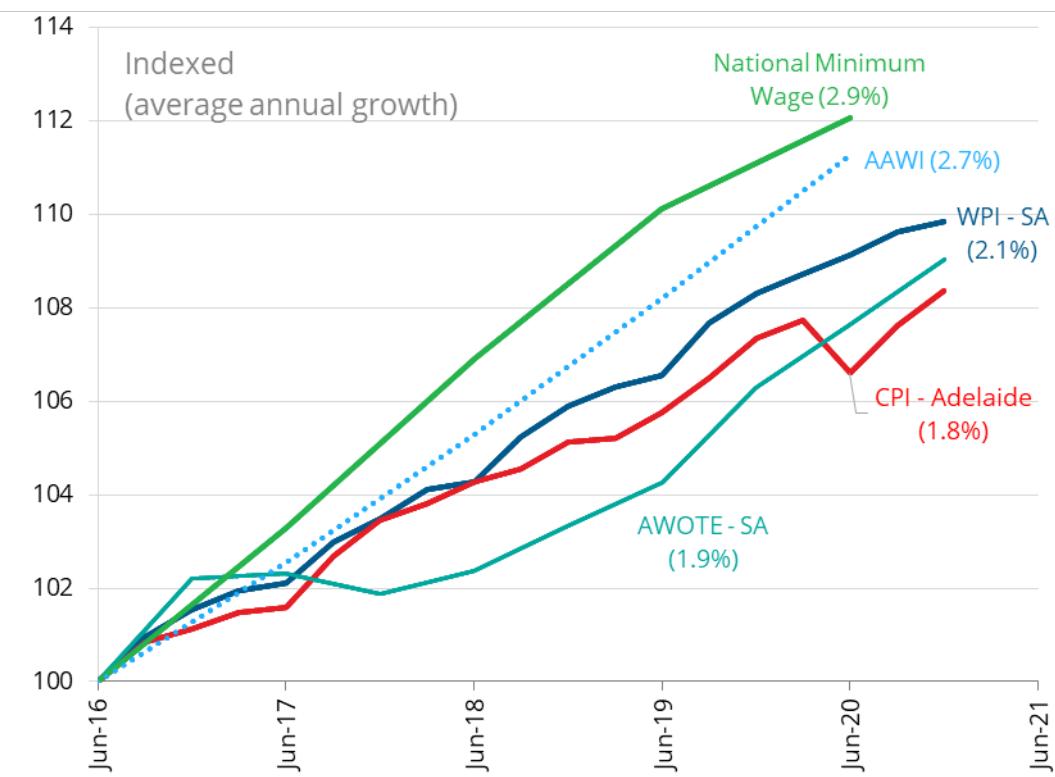
South Australian economy

43. South Australia's Gross State Product (GSP) contracted by 1.4 per cent in 2019-20. National GDP contracted by 0.2 per cent over the same period.
44. The South Australian economy has seen mixed results across its industry sectors. Industry sectors contributing most to GSP growth in 2019-20 were: healthcare and social assistance; information media and telecommunications; financial and insurance services; professional, scientific and technical services; rental, hiring and real estate services; and public administration. Industry sectors detracting most from GSP growth were: construction, wholesale trade, agriculture, forestry and fishing and accommodation and food services.
45. In 2020, the ABS began publishing an index each fortnight on the change in employee jobs and wages, including at the state level, by industry sector, for employers registered using the Single Touch Payroll system. This data source is considered to be a useful and timely indicator of changes in employment at the industry level, particularly at a time when industries are experiencing the impacts of COVID-19 to a different extent, with restrictions affecting specific activities.
46. Compared to the reference period (the week ending 14 March 2020) South Australian industries that recorded growth in jobs to the week ended 13 February 2021, included:
- Finance and insurance services (up 7.1 percent);
 - Health care and social assistance (up 6.5 per cent);
 - Education and training (up 5.3 per cent);
 - Construction (up 1.6 per cent).
47. Over the same period, South Australian industries that recorded a fall in jobs included:
- Accommodation and food services (down 8.3 per cent);
 - Transport, postal and warehousing (down 5.4 per cent);
 - Wholesale trade (down 4.3 per cent)
 - Arts and recreation services (down 3.1 per cent);
 - Retail trade (down 2.0 per cent).
48. Declines in jobs in these industries reflects the ongoing impacts from the closure of Australia's international borders and policies implemented to contain the spread of the virus.
49. In January 2021, the seasonally adjusted unemployment rate was 7.1 per cent, 0.7 of a percentage point higher than the Australian rate, and 1.4 percentage points higher than a year earlier. There remains spare capacity in the labour market. The South Australian underemployment rate was 8.3 per cent — bringing the state's under-utilisation rate to 15.4 per cent.

Wage price movement

50. The movement in wages over time using various measures of wage prices is illustrated on the chart below.

Chart 1: Wages and CPI growth¹⁰



51. According to the Wage Price Index (WPI) wages growth in South Australia in the year to the December quarter 2020 was 1.4 per cent, the same as the national growth rate. In South Australia, private sector total hourly rates of pay increased by 1.3 per cent through the year to the December quarter 2020 while public sector total hourly rates of pay increased by 1.5 per cent.

52. The WPI is considered to be the most reliable measure of the underlying growth in wages over time, because it is adjusted for compositional changes (for example, a change in the proportion of the population working in higher-paid as opposed to lower-paid industries), and the number of hours worked. 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.

53. On an average annual basis over the past five years, the WPI in South Australia has risen by 2.1 per cent per annum, while adult full-time average weekly ordinary time earnings (AWOTE) has risen by 1.9 per cent per annum.¹¹

¹⁰ Sources: ABS *Consumer Price Index, Australia* (formerly Cat No 6401.0); ABS *Average Weekly Earnings, Australia*, Table 13D (formerly Cat No 6302.0); ABS *Wage Price Index, Australia* (formerly Cat No 6345.0); National Minimum Wage data from Fair Work Commission determinations.

¹¹ In November 2020, AWOTE was 2.6 per cent higher than a year earlier in South Australia. The ABS noted in relation to this recorded movement that the “increase in average weekly earnings does not necessarily reflect increased wages at the individual employee level”. Changes in AWOTE can reflect compositional changes in the workforce. While some employees saw decreases in earnings and hours over the period, “some part-

54. By comparison, the National Minimum Wage (NMW) has increased in average annual terms by 2.9 per cent per annum (since 2015-16), and the consumer price index (CPI) has risen on average by 1.8 per cent per annum.
55. Where the nominal growth in wages exceeds the growth in consumer prices over the same period (as indicated in Chart 1) there is considered to be real growth in wages.
56. This suggests that previous increases in the NMW determined by the FWC in recent years have narrowed the gap between growth in minimum wages, and other measures of wages growth.

Conclusion

57. South Australian Government recognises that a key objective of establishing national minimum wages is that they provide a safety net.
58. Consistent with the objectives of the FW Act, the South Australian Government also believes that the maintenance of a safety net of fair minimum wages must reflect general economic conditions (including inflation) and the needs of business.
59. The South Australian Government submits that the adoption of a cautious and prudent approach to setting the NMW and modern award minimum wages for AWR 2020-21, and the use by governments of other available mechanisms to support growth in living standards and employment, is a sustainable, economically responsible course that will benefit these workers and the businesses that employ them, and meet the minimum wages objective and the object of the FW Act.

time and casual employees saw increases in their earnings as a results of the relative contribution of the JobKeeper payment (which was a standard amount of \$1,500 per fortnight or \$750 per week, regardless of the relative level of pre-COVID-19 earnings)."