



**GOVERNMENT OF
WESTERN AUSTRALIA**

Industrial Relations Act 1979

IN THE WESTERN AUSTRALIAN INDUSTRIAL RELATIONS COMMISSION

No. 1 of 2016

ON THE COMMISSION'S OWN MOTION

SUBMISSION IN REPLY OF THE MINISTER FOR COMMERCE

Re: 2016 STATE WAGE ORDER

Filed by:
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Introduction

1. On 19 January 2016 the Western Australian Industrial Relations Commission (**the Commission**) issued Application 1 of 2016 on its own motion. The application seeks to make a State Wage Order pursuant to section 50A of the *Industrial Relations Act 1979* (**IR Act**) to determine rates of pay for the purposes of the *Minimum Conditions of Employment Act 1993* (**the MCE Act**) and State awards.
2. On 10 May 2016 the Minister for Commerce (**the Minister**) on behalf of the Western Australian Government filed a submission advocating that the State adult minimum wage be adjusted in line with the Department of Treasury's (**Treasury**) most recently published figure for estimated actual growth in the Perth Consumer Price Index (**CPI**) in 2015-16, as outlined in the 2016-17 State Budget, and that State adult award rates of pay be adjusted by the same flat dollar amount.
3. On 12 May 2016 the 2016-17 State Budget was released by the Treasurer, Hon. Dr Mike Nahan MLA, and subsequently a series of updated forecasts for the Western Australian economy and labour market are now available.
4. To assist the Commission with its deliberations, the Minister has included a revised Economic Outlook, which is included at **Attachment A**.
5. A summary of some of the major economic indicators contained in the 2016-17 State Budget are outlined in Table 1 below.

Table 1: Economic forecasts – major economic aggregates, WA¹

Indicator	2014-15 Actual (%)	2015-16 Estimated Actual (%)	2016-17 Budget Estimate (%)	2017-18 Forward Estimate (%)	2018-19 Forward Estimate (%)	2019-20 Forward Estimate (%)
Gross State Product	3.5	1.0	1.25	2.5	2.5	3.0
State Final Demand	-3.6	-4.25	-3.75	-0.25	1.0	3.25
Employment	1.5	0.25	0.25	0.75	1.5	2.0
Unemployment Rate	5.4	6.25	6.75	6.5	6.25	5.75
Wage Price Index	2.2	1.75	1.75	2.25	2.75	3.25
Consumer Price Index	1.8	1.25	1.75	2.25	2.5	2.5

6. The current Treasury forecast for CPI in Perth for 2015-16 is **1.25 per cent.**² The Minister contends that an adjustment to the minimum wage in line with this forecast should be granted, and the State minimum wage of \$679.90 per week should be increased by **\$8.50** to **\$688.40 per week**. State adult award wages should also be increased by a flat dollar amount of **\$8.50 per week**.

¹ Government of Western Australia (2016) 2016-17 State Budget, Economic and Fiscal Outlook, Budget Paper No.3, p.13.

² Ibid.

7. This position reflects moderating economic and labour market conditions in Western Australia (**WA**), as outlined in the Minister's substantive submission and the Treasury Economic Outlook.
8. The Minister recognises the importance of providing a fair system of wages that meet the needs of the low paid. A flat dollar increase in line with CPI would maintain the real value of the State minimum wage, while also providing a fair adjustment for those receiving rates of pay under State awards.

Positions of other parties

9. The Minister notes the following positions made by section 50 parties and other interested stakeholders:
 - (a) the Chamber of Commerce and Industry of Western Australia (**CCI**) filed a submission proposing that the State minimum wage and State award rates of pay should be maintained at their current level. In the alternative, the CCI encourages the Commission in Court Session to grant a conservative increase that sits below the current level of inflation and any increase granted by the Fair Work Commission to the national minimum wage.
 - (b) UnionsWA filed a submission proposing a \$30 per week increase to the State minimum wage, which would see it increase from \$679.90 per week to \$709.90 per week. In relation to awards, UnionsWA proposes a \$30 per week increase for award rates of pay up to the equivalent of the C10 classification in the Metal Trades (General) Award (currently \$778.90 per week), and a 3.9 per cent increase for award rates above this amount. UnionsWA also advocates that the full increase be applied to apprentices (including trainees) and juniors.
 - (c) the Western Australian Council of Social Service (**WACOSS**) made a submission seeking a \$30.00 per week increase in the State minimum wage and award rates of pay (including for junior employees, apprentices and trainees) to assist in reducing the gap between the minimum wage and average earnings in WA.
 - (d) Mr George Williams made a submission highlighting the disparity between the wages payable to an apprentice in the plumbing industry relative to a junior worker in hospitality, and urging the Commission to increase apprentice wages.
10. This submission outlines the Minister's response to the key issues raised in these submissions.

Consideration of other submissions

Proposed wage increase

UnionsWA and WACOSS

11. Section 50A(3) of the IR Act requires the Commission to consider the economic performance of the State and, to the extent that it is relevant, the nation, in making the State Wage Order.
12. Both UnionsWA and WACOSS have proposed the State minimum wage be increased by \$30 per week, which would amount to a 4.4 per cent rise. However, inflation in Perth is currently at very low levels, with prices actually declining by 0.6 per cent in the March quarter 2016. Treasury is now forecasting Perth CPI growth of just 1.25 per cent for 2015-16³, meaning a 4.4 per cent increase to the State minimum wage would be more than three times the forecast rate of inflation.
13. UnionsWA also proposes a \$30 per week increase to award rates of pay up to the equivalent of the C10 classification in the Metal Trades (General) Award and 3.9 per cent for award rates above this amount, while WACOSS advocates a flat \$30 per week increase for all award rates of pay.
14. The Minister contends it would not be prudent to award such large increases to the State minimum wage and award wages in the current economic environment.
15. The Minister notes the State Budget papers highlight a marked contraction in the State's domestic economy, as measured by State Final Demand (**SFD**). Real SFD fell by 3.6 per cent in 2014-15, and is forecast to contract by a further 4.25 per cent in 2015-16 and 3.75 per cent in 2016-17.⁴
16. As discussed in the Minister's initial submission, the contraction in SFD in WA reflects a substantial decline in business investment and subdued growth in household consumption, which are flowing through to a softer local labour market.

³ Government of Western Australia (2016) 2016-17 State Budget, Economic and Fiscal Outlook, Budget Paper No.3, p.13. In footnotes 4 and 15 of Attachment A, Treasury states that it publishes forecasts of economic aggregates, including Perth CPI inflation, twice each year (in each budget and mid-year review). The forecasts are based on information available at the cut-off date for the relevant publication. Had the March quarter 2016 data been available at Budget cut-off (19 April 2016), the forecast for CPI in 2015-16 would have been 1.0%.

⁴ Government of Western Australia (2016) 2016-17 State Budget, Economic and Fiscal Outlook, Budget Paper No.3, p.13.

17. The economic and fiscal outlook has deteriorated further since the 2015 State Wage Order, which is evidenced by an upturn in the unemployment rate, which is projected to rise to 6.75 per cent in 2016-17.⁵ Along with declining full time employment and a fall in SFD, this supports the Minister’s submission that now is not an appropriate time for significant wage increases for award and minimum wage-reliant employees.
18. The Minister notes that UnionsWA and WACOSS propose the \$30 per week increase be passed on in full to apprentices, trainees and junior employees, rather than a proportional adjustment being made to such rates in accordance with established mechanisms. If granted, such an increase would represent an even larger wage rise for these employees (in proportionate terms). An increase of this size may provide a significant disincentive for employers to engage junior employees or enter into training arrangements.
19. The Minister also notes that it may not be consistent with the statutory framework for the Commission to award a flat \$30 per week increase to the minimum rates of pay established under the MCE Act for employees under 21 years of age. Pursuant to Section 13 of the MCE Act, rates of pay for these employees are automatically derived as a percentage of the relevant adult minimum wage as follows:

13. *Minimum weekly rate of pay for employees aged under 21*

The minimum weekly rate of pay applicable at a particular time to an employee —

- (a) *who is of the age mentioned in the first column in the Table to this section; and*
 (b) *who is not an apprentice,*

is the percentage, set out opposite that age in the second column in the Table, of the rate referred to in section 12 in effect at that time, rounded up to the nearest 10 cents.

Table

Age	Percentage of 21 year old rate
<i>20 years</i>	<i>90%</i>
<i>19 years</i>	<i>80%</i>
<i>18 years</i>	<i>70%</i>
<i>17 years</i>	<i>60%</i>
<i>16 years</i>	<i>50%</i>
<i>Under 16 years</i>	<i>40%</i>

20. Similarly, many State awards contain specific formulas for determining junior rates of pay, often based on a percentage of an adult wage classification. The award itself will often not prescribe a specific wage rate for junior employees, as it is determined in accordance with a prescribed formula. The Commission would therefore be required to vary or override existing junior rates clauses in a number State awards through the State Wage Order, to apply a flat \$30 per week increase to junior wages.

⁵ Government of Western Australia (2016) 2016-17 State Budget, Economic and Fiscal Outlook, Budget Paper No.3, p.13.

21. Youth unemployment in WA is currently over 12 per cent⁶ (in annual average terms), while apprenticeship and traineeship commencements have declined in recent years.⁷ As the employment prospects of these employees are traditionally more vulnerable during subdued economic conditions, the Minister would not wish to see their opportunities diminished as a result of substantial wage rises.

CCI

22. In its submission the CCI advocates the State minimum wage and State award rates of pay should be maintained at their current level. In the alternative, the CCI encourages the Commission to grant a conservative increase that sits below the current level of inflation and any increase granted by the Fair Work Commission to the national minimum wage.

23. Whilst the Minister notes that WA currently has a higher minimum wage than that applying in the federal jurisdiction, this disparity can largely be attributed to the relative strength of the WA economy over the last decade.

24. Although the economic climate has deteriorated in more recent times, the Minister nonetheless considers it fair that those employees reliant on the State minimum wage are provided with an adjustment which accounts for changes in the cost of living between State Wage Orders.

25. While the current rate of inflation is subdued in historical terms, the 2016-17 State Budget projects that in annual average terms, the Perth CPI will be 1.25 per cent higher in 2015-16 than in 2014-15. The Minister therefore considers it appropriate that employees reliant on the State minimum wage are provided with a wage adjustment which accounts for the change in CPI over the course of the current financial year.

Inflation

26. The Minister notes that the CCI and UnionsWA both mention individual sub-groups of CPI in their respective submissions. In the case of UnionsWA, a number of individual items that have increased by more than the Perth CPI as a whole have been mentioned, while the CCI has outlined some of the significant expenditure items that have declined in cost.

27. While individual sub-groups of CPI can be useful indicators of price movements in particular areas, the Minister contends that the overall CPI figure for Perth is the most reliable and effective measure of cost of living changes for WA employees.

⁶ ABS (2016) *Labour Force, Australia, Detailed – Electronic Delivery, March 2016*, cat. no. 6291.0.55.001, data cube LM1.

⁷ Table 6 and Table 7 of the Minister's main submission contain details of apprentice and trainee commencements by year.

Conclusion

28. It is the Minister's submission that the current economic circumstances warrant a greater degree of wage restraint. Nonetheless, the Minister recognises the importance of providing a fair system of wages which meets the needs of the low paid.
29. Estimated actual growth in CPI for Perth for the current financial year is 1.25 per cent, as released by Treasury in the 2016-17 State Budget. The Minister contends the State minimum wage should be increased by \$8.50, which would make it \$688.40 per week. State adult award wages should also be increased by a flat dollar amount of \$8.50 per week. Minimum rates of pay for junior employees, apprentices and trainees should be increased proportionally, in line with established mechanisms.
30. The Minister continues to advocate that a flat dollar increase in line with CPI would maintain the real value of the State minimum wage while also providing a fair adjustment for those receiving higher rates of pay under State awards.