

Western Australian Industrial Relations Commission

Application No. CICS 1 of 2023

2023 State Wage Order

Filed on behalf: the Western Australian Local Government Association

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Written Submission Western Australian Local Government Association



Introduction

1. The WA Local Government Association (**WALGA**) provides this submission in response to application no. CICS 1 of 2023 regarding the 2023 State Wage Order.
2. WALGA is an independent, member based, not for profit organisation representing and supporting the WA Local Government sector. WALGA advocates on behalf of WA's 139 Local Governments and negotiates service agreements for the sector. WALGA is not a government department or agency.
3. According to [Australian Bureau of Statistics](#) data, 22,800 employees were employed in the WA Local Government sector at the end of June 2022¹.
4. WALGA supports wage increases that balance the need for fair wages with the requirement for Local Governments to carefully manage their budgets in the interest of their communities.

Industrial relations context of WA Local Governments

5. The State and Federal Governments recently legislated for WA Local Governments and Regional Councils to be State system employers which required approximately 80% of the sector to transition from the Federal industrial relations (**IR**) system to the State IR system on 1 January 2023.

¹ Employment and Earnings, Public Sector, Australia 2021-22 financial year.

6. Therefore the 2023 State Wage Order now applies to all Local Governments and Regional Councils in WA (with the exception of the Shire of Christmas Island and the Shire of Cocos (Keeling) Islands).
7. Approximately 58 WA Local Governments out of 137 are covered by either the State awards or the new state instrument – Local Government Industry Award 2020 industrial agreement. These are largely the smaller SAT band 4 Local Governments that have more limited revenue and capacity to pay than some of the larger Local Governments. The remaining Local Governments have a registered and negotiated industrial agreement in place.

Industrial instruments for Local Governments that transitioned from the Federal system to the State system on 1 January 2023

8. Local Governments which transitioned are currently covered by industrial agreements including the following:
 - a. New State instrument – The Federal Local Government Industry Award 2020 which became the Local Government Industry Award 2020 industrial agreement on 1 January 2023;
 - b. New State instrument – Federal enterprise agreements which became State industrial agreements on 1 January 2023; and/or
 - c. Newly registered industrial agreements since 1 January 2023.
9. Each of the above instruments were underpinned by the Fair Work Commission's Annual Wage Review until 1 January 2023.

Industrial instruments for Local Governments that operated in the State system before 1 January 2023

10. State system Local Governments apply the following industrial instruments:
 - a. The Local Government Officers' (Western Australia) Award 2021 (**LGO Award**);
 - b. The Municipal Employees (Western Australia) Award 2021 (**ME Award**);
 - c. Other State awards that may cover Local Government employees; and/or
 - d. An industrial agreement.
11. The LGO Award and the ME Award were Federal awards created by the Australian Industrial Relations Commission (**AIRC**) and have not been amended for some 24 years. They also have not been amended to ensure they are compliant with State legislation, including the *Industrial Relations Act 1979* (WA), General Orders, the *Minimum Conditions of Employment Act 1993* (WA), or the *Local Government Act 1995* (WA) amongst others.
12. In 2021 the LGO Award and the ME Award replaced the Local Government Officers' (Western Australia) Interim Award 2011 and the Municipal Employees

(Western Australia) Award 2011 (**2011 Interim Awards**) without significant amendment. The 2011 Interim Awards were put in place when the *Fair Work Act 2009* (Cth) (**FW Act**) was made and the conundrum of the ‘constitutional corporation’ raised its head. Immediately prior to the FW Act, some WA Local Governments were covered by pre-modern Federal awards, namely the Local Government Officers’ (Western Australia) Award 1999 and the Municipal Employees (Western Australia) Award (**1999 Federal Awards**) – awards which were made by the AIRC. The 1999 Federal Awards and their predecessors, were all drafted and amended in response to the FW Act (and its predecessors), as well as the national wage fixing principles of the time.

Impact of superannuation increases

13. WA Local Governments will be required to provide employees with an additional 0.5% of superannuation from 1 July 2023 taking the total superannuation contribution to 11% of ordinary time earnings.
14. WALGA submits that the legislated superannuation increase will have an impact on Local Governments’ capacity to pay additional wages and should be considered when setting the State minimum wage and award wages.

WA Economic context

Economic growth

15. Economic conditions in WA remain strong, however, growth is expected to slow down in coming years.
16. The WA economy, as measured by State Final Demand, grew by 0.1% in the December quarter, and 3.2% compared to a year earlier. The strong growth over the year to December was underpinned by public investment (up 7.7%), and household consumption (up 3.6%). Dwelling investment detracted from growth over the year to December (down almost 3%) in line with the end to COVID-19 related stimulus programs.
17. Looking ahead, forecasts for the WA economy contained in the WA Government’s Mid-year Financial Projections Statement show that growth will slow in coming years. After expanding by 3% in 2022-23, the WA economy is predicted to grow by 1% in 2023-24 and 1.75% in 2024-25. This is well below the long-term average of 4%. The slowdown in growth reflects a weaker outlook for the global economy impacting the state’s exports and major producers operating at capacity; the impact of higher interest rates on household spending, and the continued unwinding of COVID-19 related stimulus.

Inflation

18. Like most of the developed world, inflation in Australia remains high. The Australian Consumer Price Index (**CPI**) reached 7.8% in the December quarter of 2022 – the

highest rate of growth since 1990. However, there are signs that inflation may have peaked, with Australian CPI receding to 7.02% in March. The monthly CPI figure supports this, with the rate of growth falling for three consecutive months to March.

19. Inflation rates in Perth have also been high, with the growth in the Perth CPI reaching 8.3% over the year to December off the back of strong increases in the price of housing, recreation and culture, food and beverages and household furnishings. It too appears to have peaked, slowing to 5.76% in March.
20. According to WA Treasury forecasts in December, growth in Perth's CPI is now projected at 5.25% through the year to the June quarter 2023, which is slightly below the latest national forecasts produced by Commonwealth Treasury (5.75%) and the Reserve Bank of Australia (6.25%).
21. Thereafter, growth in the Perth CPI is expected to slow to 3.25% in 2023-24 and to 2.5% by 2024-25 as economic growth slows and global supply chain issues are resolved.

Labour and wages

22. Labour market conditions in WA remain strong and are expected to remain tight in coming years.
23. The number of people employed in WA has been flat for nine months with few net jobs created.
24. Advertised job vacancies are unable to be filled, with the number of jobs on offer still close to record highs, and above the number of unemployed people.
25. The WA unemployment rate is forecast to bottom out at 3.5% in the current financial year, increasing to a still low 4% in 2023-24 and 2024-25. The participation rate is forecast to come down only slightly from the record highs. At the same time employment growth is forecast to grow less than 2% annually over the next three years, in-line with modest economic growth.
26. This tight labour market and price pressures are starting to translate into growth in wages. In WA, the Wage Price Index (**WPI**) grew by 0.8% during the December quarter and 3.6% over the year. This represents the largest increase in annual terms in a decade.
27. Looking forward, the WA WPI is expected to grow by 3.5% in 2022-23 and 3.75% in 2023-24, and 3.5% in 2024-25.

Local Government capacity to pay

28. Maintaining financial sustainability is important for all Local Governments. However, the objective is to ensure they can deliver services and infrastructure for their communities

and minimise the burden on rate payers, rather than generate general commercial returns or deliver shareholder value.

29. Local Governments set their budget with an aim to generate sufficient revenue to meet the needs of the community, as set out in each Council's Strategic Community Plan.
30. Unlike other levels of Government which have a range of revenue generating levers at their disposal, Local Government's capacity to raise revenue is constrained.
31. Local Governments' primary lever for generating revenue is rates – which are a form of property tax levied by Councils to fund local infrastructure and services. Rates are the sector's primary source of revenue – accounting for 60% of the sector's revenue in 2019-20, and 70% of the sector's own-sourced revenue. Local Governments also rely heavily on grants from the Federal and State Governments to meet their operating and capital needs.
32. To this end, Local Governments must weigh up any increase in costs with an increase in rates, or commensurate reduction in services.
33. It's important to note that the Local Government sector is not homogenous. Some Local Governments face significant financial sustainability challenges – typically, those with declining populations which are facing an ongoing underlying operating deficit.
34. Local Government finances have come under pressure in recent years as a result of a number of factors.

Local Government costs

35. Local Governments have also been operating in an environment of rising costs in recent years.
36. The Local Government Cost Index (**LGCI**) is an indicator which aims to measure changes in a basket of cost items commonly incurred by Local Governments. The components of the Index capture the key inputs that Local Governments purchase to undertake its activities and include both capital and operating costs.
37. Local Governments have not been immune from the sharp increases in prices in recent times. The LGCI has accelerated for the past two years. However, there are signs that it may have peaked after the index eased for the second consecutive quarter in December 2022.
38. After stabilising in September quarter of 2022, the LGCI has started to slow, but remains above the long-term average. The LGCI grew by 1.1% in the December quarter of 2022 to stand 4.7% higher than a year earlier. This is down from the 5.3% rate of growth recorded over the year to September.

39. Much of the increase in the LGCI in recent years has been led by the spike in construction costs, which have been growing at unprecedented rates resulting from supply chain constraints, COVID-19 stimulus induced demand, and labour shortages.
40. The LGCI is expected to grow 4.5% through 2022-23, down from the increase of 6.4% in 2021-22. Local Government costs are then expected to grow 2.9% in 2023-24.

Street lighting tariffs

41. On 27 April 2023 the Economic Regulation Authority published the draft Western Power price list for 2023/24. Western Power proposes to increase prices for streetlighting by an average of 43.85% from 1 July 2023. The tariff paid by Local Governments to Synergy or Horizon Power is set by the Government through the State Budget process.
42. Depending on the number and types of lights in each Local Government area that is serviced by Synergy, the financial impact could range from a few hundred thousand dollars to several million dollars per year.

Restrictions on fees and charges

43. Local Governments also impose fees and charges for a range of activities. However, a number of fees and charges are prescribed and restricted by legislation and are specifically limited to recouping the cost-of-service provision. This has become an issue because a number of fees determined by State Government legislation represent significant revenue leakage because of:
 - a. lack of indexation;
 - b. lack of regular review (fees may remain at the same nominal levels for decades); and
 - c. lack of transparent methodology in setting the fees (fees do not appear to be set with regard to appropriate costs recovery levels).
44. Examples of fees and charges of this nature include dog registrations fees, town planning fees and building permits. Since Local Governments do not have direct control over the determination of fees set by legislation, this revenue leakage is recovered from rate revenue.

Financial assistance grants are declining as a share of tax revenue

45. Financial Assistance (**FA**) Grants are provided to all Local Government bodies and are an important component of operating revenue for all Councils.
46. Councils only collect 3.5% of national taxation and are heavily reliant on funding from other levels of government. FA Grants have declined from one per cent of Commonwealth taxation revenue in 1996 to just 0.52% today. Recent research, commissioned by the Australian Local Government Association, shows FA Grants make

up more than 20% of annual operating expenditure for around one in four Australian councils, so it is a critical source of funding for many Local Governments which has come under pressure in recent years.

Local Government reserves

47. Many Local Governments also have assets in the form of reserves, that are generally held for a specific purpose. Typically, reserves are used for capital projects rather than ongoing operating expenditure.