

**WACOSS Submission to the
Western Australian Industrial Relations
Commission**

State Wage Case



wacoss

Western Australian
Council of Social Service Inc

*Ways to make
a difference*

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Background

As the peak body of the community service 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

Many organisations in the community services sector are incorporated entities without significant or substantial trading or financial activities, and are therefore subject to the Commission's jurisdiction. WACOSS has an interest in ensuring that wages for employees in the sector keep pace with the cost of living and community standards. WACOSS also has an interest in ensuring that wages for the sector's clients, many of whom live on low incomes, are adequate.

WACOSS' submission to the 2009 State Wage Case shares similar principles with UnionsWA's position. 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 global economic downturn is having on minimum wage earners in Western Australia.

Introduction

Minimum wages are a vital means of protecting low-income workers from poverty. The wage earned by full time minimum wage earners should be sufficient to ensure they have the capacity to meet their basic living costs, while living with dignity and respect. The economic downturn does not negate the basic principle that employees, regardless of their occupation, ought to be able to live in reasonable and frugal comfort in a civilised community. While WACOSS does not dispute the seriousness of the prospect of rising unemployment, WACOSS cannot support the notion that the most vulnerable members of the community should see their living standards eroded by a failure to deliver a sufficient wage increase.

WACOSS, as part of the national network of councils of social service, generally advocates for a federal minimum wage that is set with reference to a 'benchmark' estimate of the minimum income required for a decent basic standard of living. In the State context, WACOSS urges the Commission to take the following principles into account:

- minimum wages should be sufficient to ensure that employees can live in dignity and frugal comfort;
- minimum wages should keep pace with the cost of living for low-income earners and with community standards;
- the best way of measuring the cost of living for low-income earners is through certain components of the Consumer Price Index (CPI);
- the best way of measuring community standards is through the Wage Price Index (WPI);
- minimum wages play a vital role in low-paid industries with a low level of collective bargaining, such as the community services sector; and
- adjustments to the minimum wage should not increase the gender pay gap.

Following these principles, WACOSS advocates for an increase equal to the WPI. The most recent WPI figures available show that the total hourly rates of pay excluding bonuses rose 5.7% in WA over the year to December 2008. WACOSS therefore submits that the appropriate quantum of a minimum rate increase under the *Minimum Conditions of Employment Act* (the MCE Act) and State awards is 5.7%, being an increase of \$31.77 per week for full time employees.

WACOSS further submits that the Commission should increase the State minimum wage rate and award wage rates for junior employees, apprentices, and trainees by a proportionate amount, having regard to the MCE Act, the relativities maintained within each award, and the methodology applied previously by the Registrar.

The adequacy of minimum wages

WACOSS generally advocates for an approach that tethers minimum wages to a benchmark of the required income to meet a minimum standard of living. In the absence of a wide-ranging review of the basis for minimum wage setting, WACOSS advocates for increases to the minimum wage that ensure that low-income earners are able to maintain their real standard of living over time, and that low-income earners keep pace with community standards.

WACOSS submits that the best way to measure the adequacy of minimum wages with respect to the cost of living for low-income people is by examining certain components of CPI. The best way to measure community standards is through measures of average wages, particularly the Wage Price Index (WPI).

The cost of living for low-income 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.

The 'headline' CPI increase for Perth in the year to March 2009 was 2.2%. However, this figure masks significant increases in the types of goods and services that represent a large portion of low-income earners' budgets. In the year to March 2009, the price of food in Perth increased by 8.6%, housing by 8.1%, health services by 11.9% and education by 15%. In the 'headline' CPI figure, these significant rises were offset by falls in good and services that typically comprise a small portion of low-income earners' budgets, such as financial services. Further information regarding the cost of living for low-income West Australians is available in the *WACOSS Cost of Living Paper*, attached for your information. This paper is updated annually, and is due to be released in August 2009.

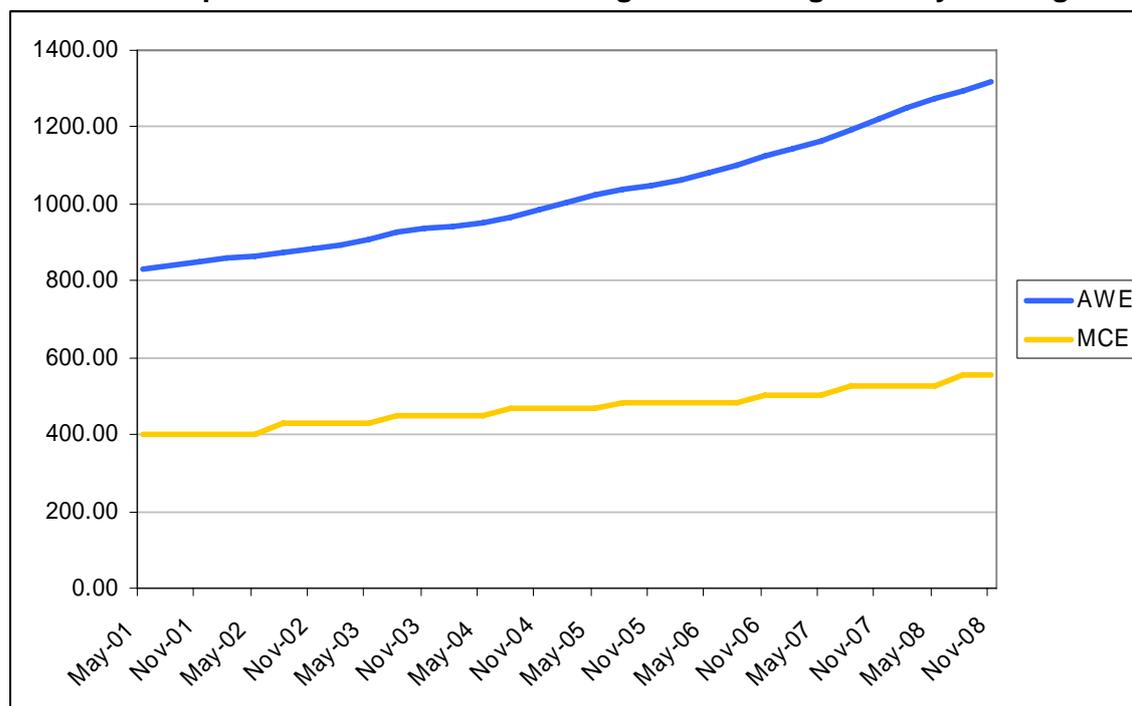
WACOSS submits that the Commission must have regard to the true cost of living for low-income employees when determining the appropriate increase in minimum wages. An approach that merely examines the 'headline' CPI figure is inadequate. An approach that merely aims to preserve the real value of the minimum wage by adjusting it by 2.2% (headline CPI) will in fact represent a reduction in the minimum wage's real value.

The adequacy of minimum wages with respect to community standards

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.

The chart below shows that, over the course of this decade, the minimum wage in Western Australia has not kept pace with increases in average earnings.

Chart 1: Comparison of State Minimum Wage with Average Weekly Earnings¹



The chart above compares the full-time adult minimum weekly rate under the MCE Act with the full-time adult average weekly ordinary time earnings rate for WA. It is evident that the minimum wage in Western Australia has increased at a slower rate than average weekly earnings. Low-income earners have therefore fallen behind community standards, and are increasingly unable to maintain a socially acceptable standard of living.

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 Commission 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).

The WPI represents the best measure of community standards of income, as it is not subject to compositional variation or the effect of outliers in the same way as Average Weekly Earnings figures. The WPI figure for the year ended December 2008 was 5.7%. WACOSS therefore submits that the quantum of an increase in WA minimum wages be no less than 5.7%. This equates to an increase in the minimum wage for full-time adults of \$31.77.

The community services sector

A significant number of low-income employees are employed in the community services sector. Currently in Western Australia, there are approximately 110 000

¹ This chart compares the full-time adult minimum weekly rate under the *Minimum Conditions of Employment Act 1993* (derived from http://www.commerce.wa.gov.au/labourrelations/PDF/Awards/M/MCE_previous_rates.pdf) with the full-time adult average weekly ordinary time earnings rate, derived from ABS 6302.0, Table 11E).

people employed in the health and community services industry². While it is difficult to ascertain the jurisdictional coverage of these employees, it is likely that a significant number of them fall within the State industrial relations system.

The community services sector (and the human services industry more broadly) includes a number of unincorporated entities and incorporated organisations that are not constitutional corporations. The Commission's decision with respect to minimum wage adjustments will have a tangible impact on the living standards of employees in these sectors.

As the peak body for the community services sector in WA, WACOSS is concerned about the adequacy of wages in the sector, and the sector's ability to attract and retain staff. Many organisations in the sector are small, lacking the organisational infrastructure that facilitates enterprise-level bargaining. As a result, the sector has been disproportionately reliant on wages and conditions in awards. The Commission therefore has a direct role in influencing wages for employees in the sector. WACOSS calls upon the Commission 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.

Staff working in the sector are severely undervalued. Funding for the sector does not take into account the true cost of delivering services. Funding is, in turn, frequently based on an assessment of organisations' staffing costs that is derived from award rates. It is therefore vital that award rates represent a true and fair valuation of the work performed by low-wage employees.

The undervaluation of the sector is stark. 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, for example, 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.

The gender pay gap in WA

WA has the largest gender pay gap 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%³.

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. To reduce the gender pay gap in WA, it is vital that minimum wages keep pace with community standards. Further erosion of the minimum wage relative to average wages will see the gender pay gap in WA continue to grow.

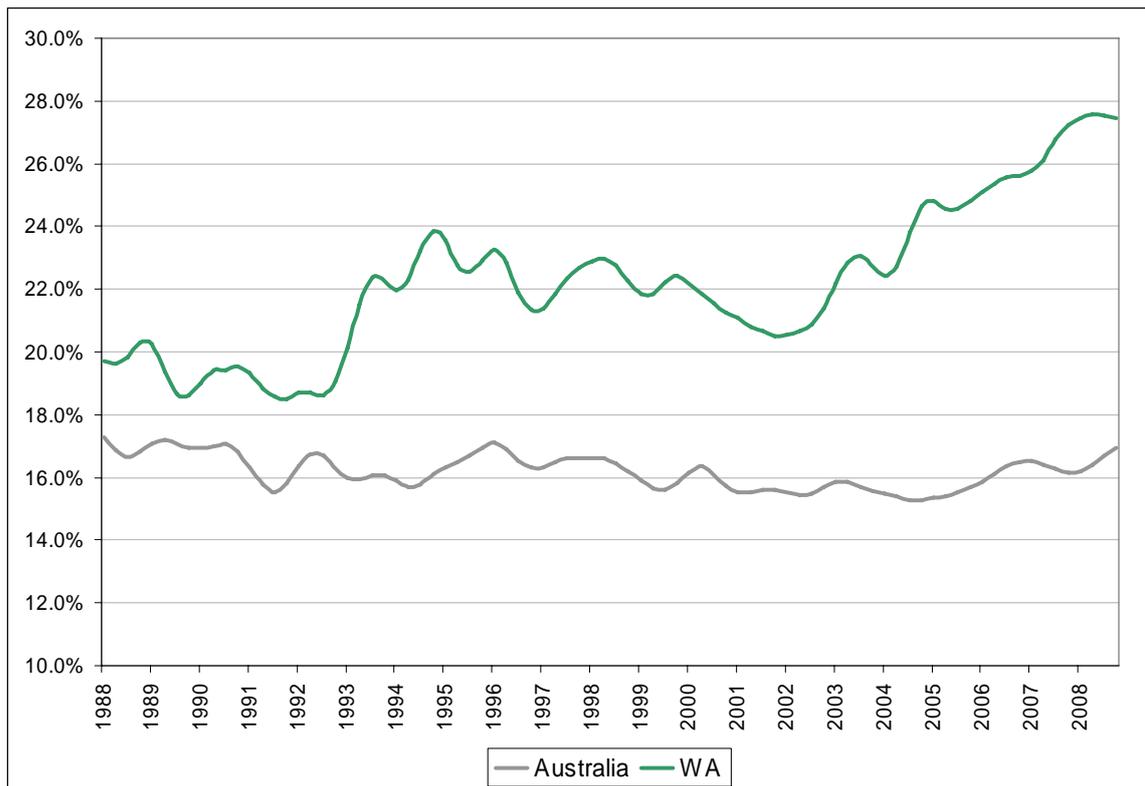
The chart below compares the gender pay gaps for WA and for Australia. The chart shows that the national gender pay gap has remained relatively constant for the last two decades, fluctuating between 15% and 17%, whereas the gap in WA has increased significantly.

CHART 2: Gender pay gaps in WA and Australia over time⁴

² Derived from ABS, *Labour Force, Detailed Quarterly*, E06_Aug94 – Employed Persons by Industry Group, Sex, State, Status in Employment, Cat. No.: 6291.0.55.003

³ ABS, *Average Weekly Earnings*, 6302.0, November 2008.

⁴ ABS, *Average Weekly Earnings*, 6302.0, November 2008.



Minimum wages and employment

WACOSS acknowledges that slowing economic growth has begun to flow on to the labour market.⁵ However, the effect of minimum wages on unemployment is still somewhat unclear. Conversely, we know 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 such uncertain and rapidly deteriorating economic conditions.

Global economic downturn

The impact of the global economic downturn is beginning to be evident. Unemployment figures released recently by the Australian Bureau of Statistics show that from January to February 2009, the unemployment rate in WA has risen to 4.2% - a staggering increase of 10,900 people.

Community service organisations report sharp increases in 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 applications at 3 times the rate they were in October/November 2008, increasing from approximately 50 per month to 150.

Relationships Australia reports an increase in the number of people presenting with relationship difficulties, and attributes these difficulties to financial stress and unemployment. They have also noted an increase in the number of people requesting a fee waiver, whereby clients either pay a reduced amount, or are not charged for service.

⁵ Australian Fair Pay Commission. *Economic and Social Indicators – Monitoring Report*. July-December 2008

The Consumer Credit Legal Service reports an increasing number of clients experiencing negative equity in their home as a result of declining house prices. The majority of clients are low income earners who bought into the housing market in the past three years.

House repossessions have also increased in WA. In the last financial year, there were 686 applications for property repossession. This number, though seemingly small, represents a worrying trend, as it shows an increase of 233 repossessions in the previous 12 months. Figures released by the Supreme Court of Western Australia show that 251 repossession applications were lodged in the July-September quarter of 2008. This represents an increase of 88% on the corresponding quarter in 2007.

It is vital the minimum wages keep pace with the cost of living and community standards in order to avert severe financial hardship for low-income employees. WACOSS anticipates the Commission's hesitation in committing to minimum wage increases in the current economic climate. However, we maintain that these increases are a necessary element in protecting all vulnerable Western Australians from falling further into poverty and debt cycles.

Conclusion

WACOSS thanks the Commission for the opportunity to provide input into the wage setting process for 2009.

Based on a number of principles outlined in this submission, WACOSS advocates for a minimum wage increase equal to the WPI, currently set at 5.7%. This equates to an increase of \$31.77 per week for full time employees. This increase will go some way to ensuring that minimum wage earners can live in dignity and frugal comfort and are able to keep pace with cost of living increases in Western Australia.

Attachments

WACOSS 2009, *Close the Gender Pay Gap: Value Community Services*.
WACOSS 2008, *Cost of Living Paper*.