Submission to the Western Australian Industrial Relations Commission

2018 State Wage Case

Western Australian Council of Social Service Inc.
City West Lotteries House, 2 Delhi Street, West Perth, WA 6005
www.wacoss.org.au
Phone: (08) 9420 7222
Fax: (08) 9486 7966
Email: Chris Twomey - chris@wacoss.org.au
Graham Hansen – graham@wacoss.org.au

Contents

The Western Australian Council of Social Service represents three hundred member organisations in the provision of community services to the Western Australian community.

As one of nine peak social service councils across Australia, we partner with a national network to magnify our expertise, resources and impact. We ensure that Western Australia is represented on a national stage.

We are committed to genuine collaboration through a shared resourcing approach and capacity building, and seek to be the voice of the community service sector as a whole.

We tackle hard issues and challenge policy, systems, behaviours and attitudes that contribute to inequality, exclusion and disadvantage.

1.0 Introduction

The Western Australian Council of Social Service (WACOSS) considers the minimum wage to be a vital means of protecting low-income workers from poverty that delivers economic benefits to the wider Western Australian community and reflects community standards to support a decent standard of living for working people and their families. As the peak body of the community service sector in WA, and as an advocate for people experiencing disadvantage and hardship, WACOSS has a particular interest in the adequacy of living standards and quality of life experienced by Western Australians living on low incomes.

WACOSS's submission to the 2018 State Wage Case relies on the provisions in the *Industrial Relations Act 1979*, at Clause 50A(3)(a) for the Commission to consider in its determination of minimum rates of pay the need to:

> *i. ensure that Western Australians have a fair system of wages and conditions;*
> *ii. meet the needs of the low paid;*
> *iii. provide fair wage standards in the context of living standards generally prevailing in the community;*
> *iv. contribute to improved living standards for employees.*[1]

In preparing this submission, WACOSS has carefully considered the changing economic and workplace environment for low-wage workers. We have reviewed the state of knowledge in related areas and considered the latest research and analysis to ensure our submission is up to date and directly relevant to the lived experience of minimum wage workers in WA. We do so in order to provide the Commission with the best available data and analysis upon which to base its deliberations.

2.0 WACOSS's claim

WACOSS submits that an increase to the State Minimum Wage rate (and in the minimum award rates for junior employees, apprentices and trainees) of $50 per week is consistent with the need to maintain a fair system of wages and conditions in the current Western Australian context; and (b) a very reasonable increase which takes into account current economic conditions.

The primary basis for WACOSS's claim is that this increase is needed in order to provide fair wage standards in the context of the living standards generally prevailing in the community, and to contribute to improved living standards for employees.

While minimum wage increases in recent years have been welcomed by WACOSS and low-wage workers in the community, WACOSS contends that it has been many years since a minimum wage decision has delivered demonstrable *improvement* to living standards for low-wage employees.[2] In reality, minimum wage decisions have consistently fallen short of what WACOSS has considered necessary for low wage employees to actually keep up with cost of living increases. As a result, the

[1] *Industrial Relations Act 1979* (WA)
[2] As per s50A (3)(a) iv.

standards of living of those on the lowest wages have fallen further behind community expectations and standards.

Households with dual incomes have seen significant alleviations in pressures on their house holds budgets, but low-waged singles and single parent households in particular are continuing to struggle to make ends meet.

Although median rent headline figures are down, those on the lowest incomes are still finding affordable and appropriate housing unavailable. Western Australians are facing soaring utility prices with no end in sight and disconnections are the highest they have ever been. More and more people are reporting they are having to go without food in order to try to meet other financial pressures in their lives.

The plight of particular groups within our community who are more reliant on the minimum wage is of particular concern, including younger workers, women, care workers, low-skilled workers and those increasingly experiencing precarious employment. New research on financial hardship shows a significant proportion of working households have high levels of debt and are struggling to get by. Recent evidence to the Royal Commission into *Banking, Superannuation and Financial Services Industry* has highlighted the risk of households on moderate incomes having signed up to mortgages that only allow for weekly living expenses at or effectively below the poverty line.

Meanwhile wage growth has continued to remain flat for an extended period, leading many respected economists (including the Governor of the Reserve Bank) to raise concerns about its impact on the health of our economy. The 2018/19 State Budget projections rely on wage growth rising to 2.25 per cent over forward estimates as a key factor underlying economic recovery.[3]

While many WA businesses faced weaker financial conditions in the wake of the downturn associated with the mining boom, evidence and projections provided by WA Treasury in the 2018/19 State Budget indicate clear signs of improvement and expectations of improved business performance into the future. WACOSS suggests that a $50 per week increase in the state minimum wage is a prudent amount to both stimulate the Western Australian economy and to address cost of living pressures.

A raise in the minimum wage of this nature will increase the spending power of those with the largest marginal propensity to consume — that is, those on lower incomes. It follows that the resulting increased spending will help drive growth in retail spending, improve consumer confidence, and help drive the economy. Increasing the adequacy of the minimum wage is arguably one of the most effective means of stimulating the economy, reducing inequality within our community, and maintaining community living standards.

With clear evidence of Western Australians experiencing significant financial hardship and living cost pressures, a $50 a week increase is essential to meet the needs of the low paid and to contribute to improved living standards for employees.

[3] *WA State Budget 2018/19*, Budget Paper 3, p 13

3.0 The Cost of Living in WA

The members of WACOSS bear professional witness to the plight of low-income individuals and households – in particular, those who have struggled to achieve and maintain an acceptable standard of living by Western Australian standards, while working full time.

The ability of low-income households in WA to achieve a basic standard of living is the focus of WACOSS *Cost of Living Report 2017*, which has been produced annually since 2007. The report is produced in or after September every year as it is reliant on the release of ABS figures for the financial year. This report models five low-income households, and examines the adequacy of their income to enable them to afford a basic standard of living in line with agreed community standards during the previous financial year. Through this modelling, we seek to provide a picture of the challenges low-income households face year by year as they endeavour to ensure their basic costs of living do not exceed their meagre income.

The release of the ABS *2015/16 Household Expenditure Survey* provided WACOSS with the opportunity to reset the expenditure baseline for our model households for the first time since their establishment in 2012. To preserve historical comparability, we presented the models using both the original baseline (which was based on the *2009/10 HES*) and the new baseline, to present an indication of changes in household consumption levels.

Income and expenditure of our model households

	Income	Expenditure		Net Position	
		Old Baseline	New Baseline	Old Baseline	New Baseline
Single Parent Family	$978.96	$875.66	$845.93	$103.31	$133.04
Working Family	$1,450.04	$1,294.62	$1,192.47	$172.96	$257.57
Unemployed Single	$312.08	$335.74	$325.91	-$23.66	-$13.84
Age Pensioners (Renters)	$727.14	-	$714.44	-	$12.70
Age Pensioners (Home Owners)	$665.44	-	$482.58	-	$182.88

Source: WACOSS *Cost of Living Report 2017*

The model's Single Parent Family works 18 hours a week for 39 weeks a year at minimum wage plus casual loading and is eligible for government payments. The model's Working Family has one parent working full-time at above minimum wages (minimum wage + 33%), with the other parent working casually (16 hours per week at minimum wage with casual loading). They too are eligible for government payments.

Though the 2017 report saw an appreciable improvement during 2016-17 coming off tougher times associated with the local economic downturn, it is important to remember that these calculations are focused on the bare essentials of a basic standard of living - make little to no allowance for the

families to save, for the single parent to undertake training in order to improve their employment prospects, or to enable the family to be able to respond to an unexpected cost or crisis (if the fridge or car breaks down). These are all measures that population surveys suggest are required to meet community standards and expectations of minimum acceptable living standards.[4] The single family does not have any health or home and contents insurance, and the model does not provide for any spending on items such as birthday presents, school excursions or other "non-essential" items.

For the full WACOSS *Cost of Living Report 2017*, we direct your attention to the attachment accompanying this submission.

3.1 Housing: the major cost of living pressure in WA

Housing, and in particular the unaffordability of the private rental market, and low supply of public and community housing relative to demand, is *the* most pressing issue facing low-income individuals and households in Western Australia. As the single largest living cost for WA households, housing is also the biggest contributor to financial hardship and the biggest risk factor for financial crisis for those on low and fixed incomes.

Rental affordability

While the median rent level has declined in recent years to $350 as of December 2017, it still accounts for *over 49 per cent* of the State Minimum Wage. For those households in the bottom 40 per cent of Australia's income distribution, they are considered to be in "housing stress" when their housing costs exceed *30 per cent* of their income and their earnings are in the bottom 40 per cent of equivalised disposable income (which is true for minimum wage earners) – meaning that if a household earning a minimum wage is paying 49 per cent of their income on rent, they will most certainly qualify as being in *severe* housing stress.

It is estimated that there are around 59,000 Western Australians unable to afford market housing and a further 73,000 requiring rent assistance to alleviate a position of rental stress.[5] As of the end of 2016/17, there are 16,516 households on the public housing waitlist, with 1,590 on the priority waitlist.[6] On average, applicants waited 139 weeks to be housed (or around 2.7 years).

It is important to recognise that the median rental price is a measure of the amount paid for *new* rental contracts rather than ongoing ones. Many lower income earners are not in a position to negotiate their rent down, due to a lack of experience and confidence or as a result of their precarious financial situation. They report being fearful of indicating to their landlord they may have trouble paying the rent in the future as they might be perceived as a 'risky' tenant. Further, as many are unable to find other affordable rental options within their local community, the lack of feasible alternative accommodation nearby deprives them of a negotiating position.

---

[4] P Saunders, M Bedford (2017) *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians*, Social Policy Research Centre, UNSW Sydney

[5] S Rowley, C Leishman, E Baker, R Bentley, and L Lester (2017) 'Modelling housing need in Australia to 2025' *Australian Housing and Urban Research Institute*, AHURI Final Report 287

[6] Housing Authority (2017) *Annual Report 2016-17*, p 53

The discrepancy between median rents and the lived experience of those on low incomes is what makes research such as the annual *Anglicare Rental Affordability Snapshot* so valuable. This report takes a 'snapshot' on a given day of the rental market and examines whether the properties being advertised are both affordable for a range of different low income types and whether those properties are appropriate for the composition of their household.

The *2018 WA Rental Affordability Snapshot* found that a couple with two children in the Perth metropolitan area, where *both* parents were receiving the minimum wage and Family Tax Benefit Part A, were able to find 5,116 affordable and appropriate rental properties, which accounted to 49 per cent of those being advertised.[7] With their earnings (which equate to around $1,339 per week) placing them within the second equivalised disposable household income quintile, it is worth noting that there is an estimated 179,900 households who would be on a similar income level.[8]

That number more than halves as soon as *only one* of the parents has access to the minimum wage, down to only 2,335 affordable and appropriate properties or only 22 per cent of those advertised.

For a single parent of two children on the minimum wage and receiving Family Tax Benefit Part A and B, their options are even fewer, with only 1,135 properties affordable and appropriate or *only 11 per cent* of those advertised. A single minimum wage earner would only be able to find 148 or *just 1 per cent* of rental properties advertised that were affordable and appropriate, which included boarding houses or renting a room in a share house. Both of these household types find themselves in the lowest equivalised disposable household income quintile, alongside 228,000 other households and 496,000 people.[9]

In the northwest of the state, a single on the minimum wage would only be able to find a total of 9 rental properties that would be both affordable and appropriate, with the single parent of two able to find just 25 properties advertised that would be affordable and appropriate for their household composition.

Greater Metropolitan Perth WA

Household Type	Payment Type	Number Affordable & Appropriate	Percentage Affordable & Appropriate
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage + FTB A (both adults)	5116	49
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage + Parenting payment (partnered) + FTB A & B	2335	22
Single, two children (one aged less than 5, one aged less than 10)	Minimum Wage + FTB A & B	1135	11
Single	Minimum Wage	148	1
Total No of Properties	10,490		

[7] Anglicare (2017) *WA Rental Affordability Snapshot*
[8] ABS (2017) *Household Expenditure Survey 2015-16*, Table 18.2
[9] Ibid.

Southwest and Great Southern WA

Household Type	Payment Type	Number Affordable & Appropriate	Percentage Affordable & Appropriate
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage + FTB A (both adults)	785	73
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage + Parenting payment (partnered) + FTB A & B	395	37
Single, two children (one aged less than 5, one aged less than 10)	Minimum Wage + FTB A & B	220	20
Single	Minimum Wage	34	3
Total No of Properties	1,081		

Northwest WA

Household Type	Payment Type	Number Affordable & Appropriate	Percentage Affordable & Appropriate
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage + FTB A (both adults)	151	26
Couple, two children (one aged less than 5, one aged less than 10)	Minimum Wage + Parenting payment (partnered) + FTB A & B	54	9
Single, two children (one aged less than 5, one aged less than 10)	Minimum Wage + FTB A & B	25	4
Single	Minimum Wage	9	2
Total No of Properties	581		

Source: Anglicare (2018) *WA Rental Affordability Snapshot*

These statistics are of concern to WACOSS. While there has been a clear reduction in the *median* rental price, those on the lowest incomes are still facing very significant challenges in the rental market. As a result, they are either renting places that are inappropriate for their life circumstances, or that consume a significantly higher percentage of their income than is in line with agreed community standards.

3.2 Food

According to the *2015/16 Household Expenditure Survey* data, households in the lowest income quintile are spending an average of $144.15 each week on food and non-alcoholic beverages, a 23.8 per cent bite of their income.

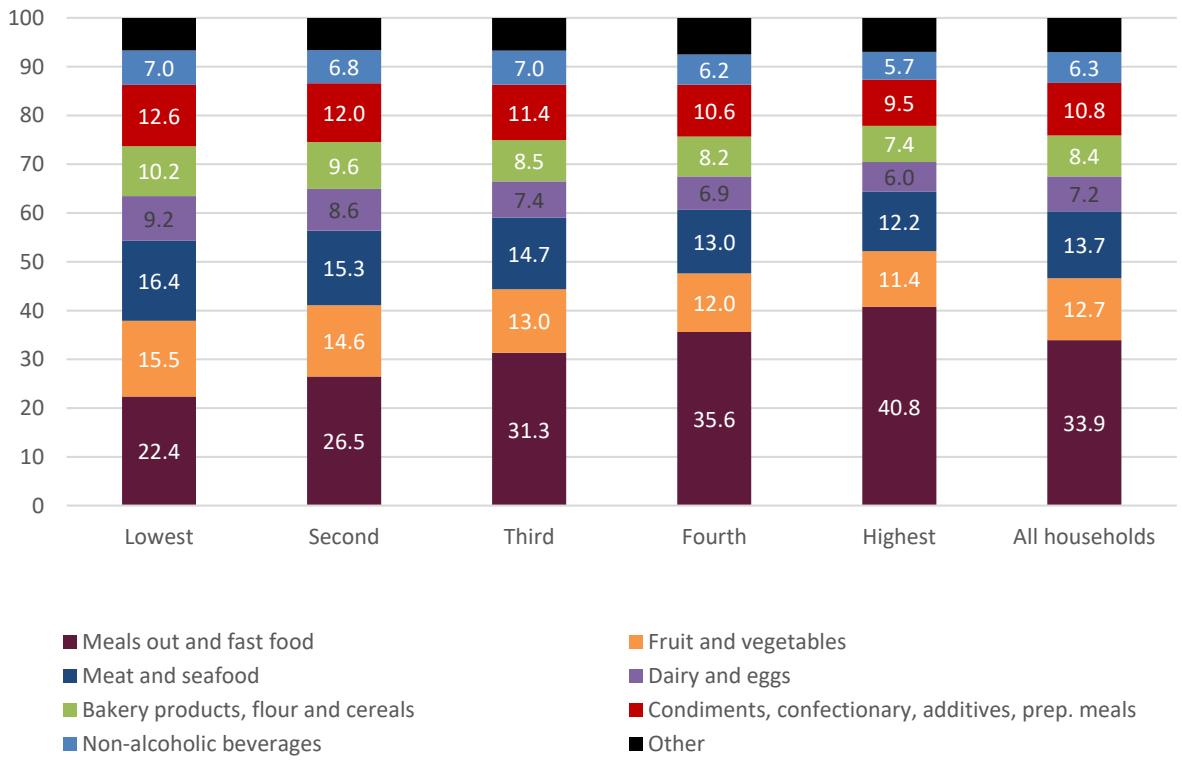
In contrast, those in the third and fourth quintile are spending less than 15 per cent of their income, while the highest quintile less than 10 per cent.

Weekly Food and Non-Alcoholic Beverage Expenditure by Gross Household Income Quintiles						
	Lowest	Second	Third	Fourth	Highest	**All households**
Food expenditure	$114.15	$164.05	$227.42	$289.38	$391.24	$236.97
% of median gross income	23.8	17.3	14.1	11.7	9.5	14.7

Source: ABS (2017) *Household Expenditure Survey 2015-16*

Looking at the distribution of their food expenditure across different categories, shows that for all quintiles, eating out or ordering takeaway is the largest share of their expenditure. For the lowest quintile, that is a share of around 22.4 per cent, with the highest quintile nearly double that.

Figure 1: Distribution of weekly food expenditure by household income, Australia, 2015-16



Source: ABS (2017) *Household Expenditure Survey 2015-16*

It can be seen that the fourth quintile has the largest share of their weekly food expenditure going towards fast food and takeaway, with the highest quintile devoting more of their food expenditure to having meals out. This could suggest that those on lower incomes are more likely to cook their own meals, as well as the likelihood that the takeaway they are ordering or the meals they are eating out are substantially cheaper.

Weekly Meals Out And Fast Food Expenditure by Gross Household Income Quintiles						
	Lowest	Second	Third	Fourth	Highest	All households
Fast food and takeaway	$11.11	$21.76	$31.20	$33.92	$62.59	$31.95
% of weekly food expenditure	9.1	10.9	13.5	14.8	13.8	13.1
Meals in restaurants, hotels, clubs and related	$13.75	$23.14	$36.71	$53.46	$94.88	$44.25
% of weekly food expenditure	12.0	14.1	16.1	18.5	24.3	18.7

Source: ABS (2017) *Household Expenditure Survey 2015-16*

The *Foodbank Hunger Report 2017* found that 3.6 million Australians experienced food insecurity at least once in the preceding 12 months. Of those people, three in five had experienced food insecurity at least once a month. In Western Australia, there had been an increase of 11 per cent in the proportion of people seeking food relief since 2016, with 479,000 meals provided each month.

Cost of living pressures play a significant role in food insecurity. According to the report, 41 per cent of people who experienced food insecurity had not paid bills in order to buy food. 56 per cent said they had been unable to buy food due to an unexpected expense or large bill and 38 per cent due to having to pay rent or make a mortgage repayment. 35 per cent said they are unable to buy food because it was too expensive.[10]

Recent research on the prevalence of food insecurity amongst regional and remote Western Australian children, found that 20.1 per cent of those children were food insecure. More than one in five were concerned that food would run out before their family could afford to buy more.[11]

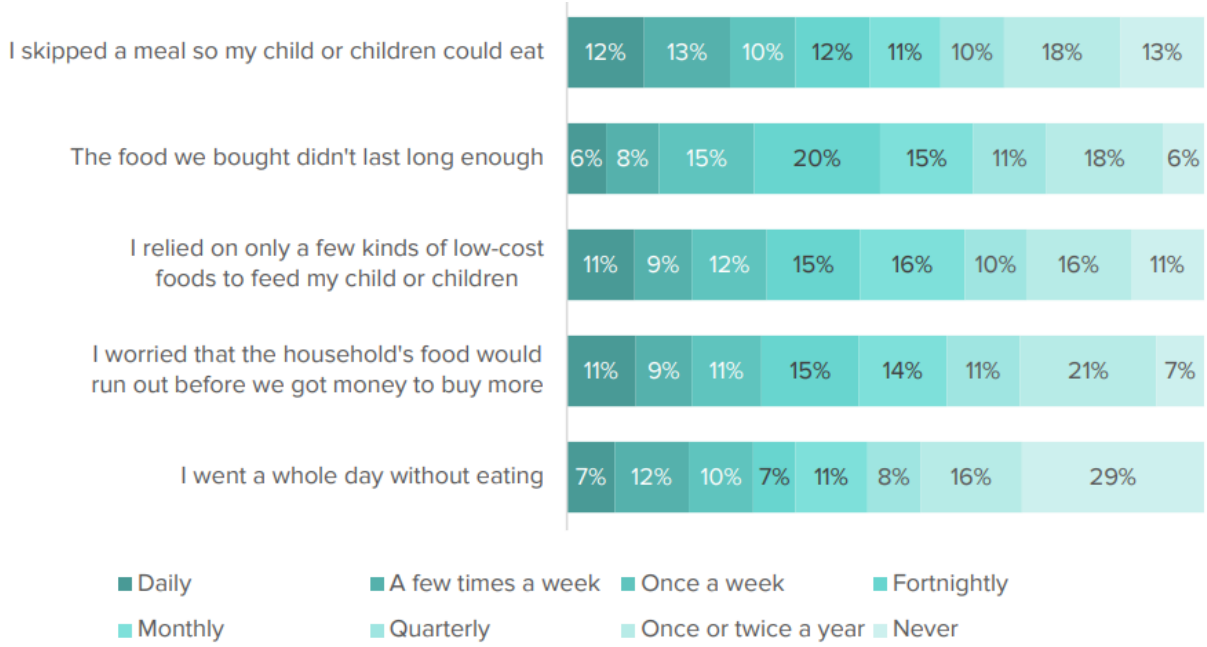
These findings are directly relevant to households reliant on the minimum wage. Foodbank's recent *Rumbling Tummies: Child Hunger in Australia 2018* report found that 32 per cent of parents living in food insecure households are employed full-time, with a further 17 per cent employed part-time. The largest share of report's survey respondents experiencing food insecurity (29 per cent) reported their household's combined gross annual income before-tax to be between $700 to $1,199 a week, with a further 25% reporting earning between $1,200 to $1,999 per week. Households whose primary source of income is either a single or dual minimum wage fall directly within this income range.

52 per cent food-insecure households were facing that because of an unexpected expense or large bill was a cause of food insecurity, with 44 per cent reporting that they could not afford enough food

[10] Foodbank Australia (2017) *Foodbank Hunger Report 2017*
[11] Stephen Godrich et al (2017) 'Prevalence of socio-demographic predictors of food insecurity among regional and remote Western Australian children' *Australian and New Zealand Journal of Public Health*

because they just did not have enough money in the first place. 37 per cent of food-insecure households reported that they were living on low wages or on a pension.

Figure 2: Experience of skipping meals for parents in food insecure households



Source: Foodbank (2018) *Rumbling Tummies: Child Hunger in Australia*

Almost nine out of ten parents (87 per cent) in food-insecure households have skipped a meal so their children can eat and for 36 per cent, this is a weekly occurrence. At least once a week, three in ten parents (29 per cent) have to go a whole day without eating.

Skipping meals can have a profound impact on a person's wellbeing, including their physical and mental health, social interactions, ability to function and, in the case of children, their growth and development. Further, many households facing food stress will make do by relying on cheaper, energy dense foods with poor nutritional value – increasing the risks of future chronic diseases such as diabetes and obesity. With almost half of food-insecure households in full or part-time work, it is clear **income levels are not adequate to meet a basic standard of living**.

3.3 Utilities and Household Fees

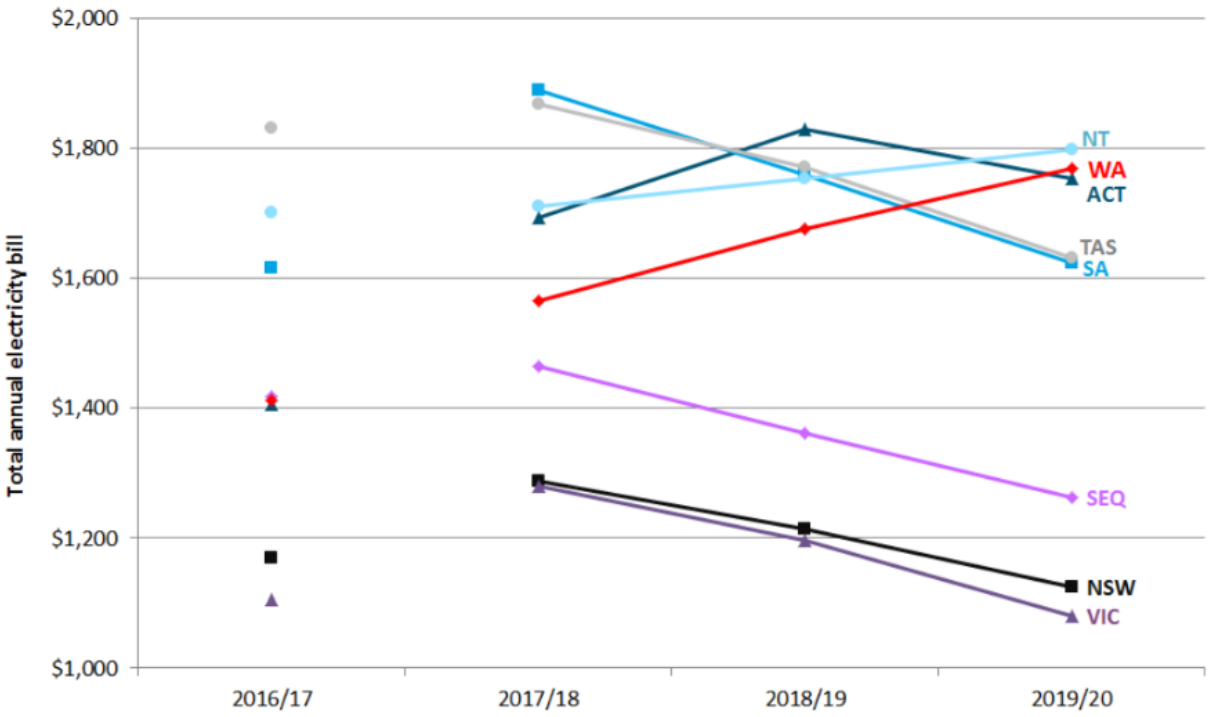
For households doing it tough, a utility bill can represent the choice between paying their rent and buying food, or keeping the lights on, the fridge running and being able to heat or cool their home. As a result, low-income earners may be forced to forsake services, such as water or electricity, which are essential to maintaining a reasonable standard of living in order to feed themselves, or to keep a roof over their head.

The State Government increased the residential *fixed* charge paid by all households for electricity supply by 10.9 per cent at the beginning of the 2017/18 financial year, which is equivalent to a $169 increase to every household electricity bill. This was followed by an increase of 7 per cent in the 2018/19 State Budget – equivalent to another $120.57 for the representative household. In the longer term, budget forecasts show further increases of 5.6 per cent, 3.5 per cent and 1.8 per cent in

the following years to 2021-22.[12] As they spend a higher percentage of their disposable income on energy bills, the increasing cost of energy disproportionately impacts households on the lowest incomes. As the 2017 increase was to the fixed charge, households are unable to avoid it or mitigate its impact by reducing their electricity consumption.

These increases place Western Australia on the path to have some the highest electricity prices in the country, with the Australian Energy Market Commission predicting that the state will have second highest electricity bills after the Northern Territory by 2019/20.

Figure 3: Trends in representative residential electricity bills across jurisdictions



Source: Australian Energy Market Commission *2017 Residential Electricity Price Trends*

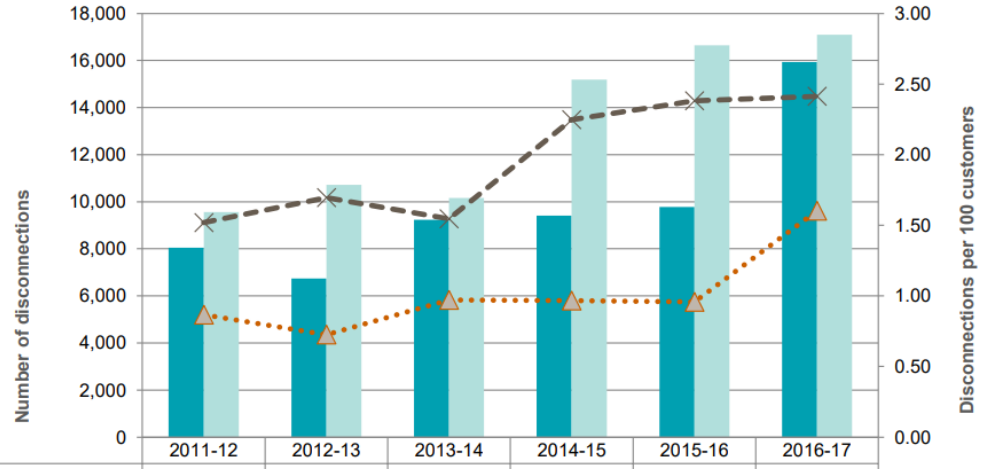
The 2016-17 financial year saw a dramatic increase in residential electricity disconnections from 9,774 in 2015-16 to 15,935 in 2016-17. Synergy's disconnections alone increased from 8,069 to 14,109 - the highest number of disconnections by Synergy since the Economic Regulation Authority began reporting.[13] Residential gas disconnections also increased, from 16,649 in 2015-16 to 17,097 in 2016-17.

Figure 4 shows the significant increase in electricity disconnections from 2015-16 to 2016-17.

[12] *WA State Budget 2018/19*, Budget Paper 3, p 260

[13] Economic Regulation Authority (2017) *Annual Performance Report – Energy Retailers*

Figure 4: Residential customer disconnections



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Electricity	8,051	6,746	9,235	9,412	9,774	15,935
Gas	9,557	10,724	10,165	15,184	16,649	17,097
Electricity (per 100 customers)	0.87	0.72	0.97	0.97	0.96	1.60
Gas (per 100 customers)	1.52	1.69	1.55	2.25	2.38	2.41

Source: Economic Regulation Authority *2017 Annual Performance Report – Energy Retailers*

Residential disconnection information provided to the ERA by electricity retailers shows the correlation between the increase in customers seeking help to pay their bills and the rise in disconnections. with 56.9 per cent were customers previously on an instalment plan, up from 43.9 per cent in 2015-16; and 18.9 per cent were customers who had previously been disconnected within the past 24 months, up from 17.7 per cent in 2015-16. As can be seen from the figure below, 2016-17 saw a marked increase in customers needing to go on instalment plans due to difficulties in paying their energy bills.

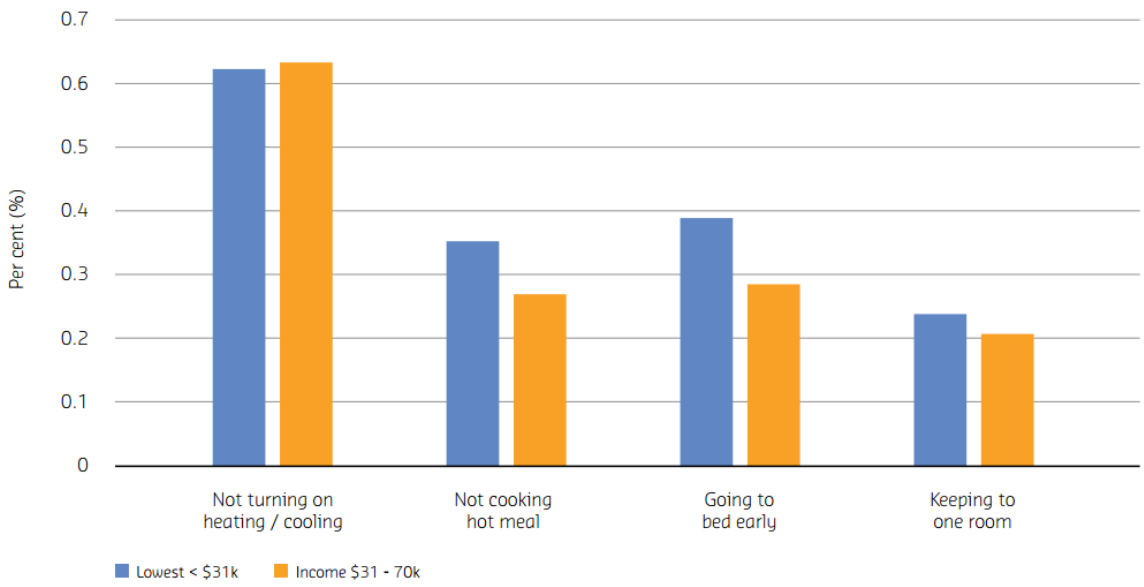
Figure 5: Instalment plans for residential customers

Source: Economic Regulation Authority *2017 Snapshot of the small use energy market in WA*

Comparing the state-wide residential electricity and gas disconnection rates with those in other states shows that Western Australia had the highest disconnection rate for residential electricity customers (1.60 per 100 customers) and residential gas customers (2.41 per 100 customers). Prior to 2016-17, Western Australian retailers had the lowest electricity disconnection rate.

The 2016 BCEC Energy Poverty survey found that a number of low-income households were resorting to different measures in order to reduce their power bills.

Figure 6: Proportion of low income households reporting use of cost cutting measures[14]



The report found that rental households were dramatically less likely to be insulated, meaning that those on low incomes were more likely to be using more power to regulate the temperature in their dwelling.

Figure 7: Percentage of dwellings with insulation in Perth 2009/10 (per cent)[15]

Source: ABS. Cat. No. 4656-5

The Hardship Utility Grant Scheme (HUGS) provides financial assistance to those in financial hardship in order to pay their utility bills. An average of 109 people a day applied for HUGS over the last financial year, with approximately 27,000 Synergy customers making applications to HUGS in

[14] Bankwest Curtin Economics Centre (2016) *Energy Poverty Survey*
[15] Ibid.

2016/17. These numbers indicate an increase of more than 50 per cent, resulting in a rise of HUGS expenditure from $4.3 million in 2015/6 to $11.4 million in 2016/17.

As those households on average or better wages who own their own home are increasingly investing in solar energy and battery storage systems to reduce their electricity costs, fixed and network charges will continue to rise to maintain network profitability, resulting in an increased impost on those on lower incomes and in rental properties who have neither the means nor the choice to invest in photovoltaics, insulation or efficient new appliances.

A recent report *Heatwaves, homes and health: Why household vulnerability to extreme heat is an electricity policy issue* by the Centre for Urban Research at RMIT highlights the significant risk posed to vulnerable households by the increasing prevalence of extreme heat, particularly in our tropical northerly climactic regions. It raises concerns about policy initiatives in the National Electricity Market (which does not include WA or NT) that aim to reduce peak electricity demand via 'price signals' which would make energy significantly more expensive during heatwaves, indicating significant risks to the health and well-being of vulnerable population groups (including seniors, infants and those with medical conditions such as thermo-regulatory dysfunction).

Research currently being conducted by Bankwest Curtin Economic Centre, WACOSS and Horizon Power analyses the responses of vulnerable households to proposed electricity tariff structures ('power plans' with a peak consumption rate allowance, similar to mobile phone contracts) designed to encourage reduced peak consumption. [16] The product links smart meter data to a mobile phone app to send an alert to consumers when they are approaching their peak consumption rate allowance, prompting them to reduce consumption or risk losing a financial reward. The trials suggested that, while the majority of consumers including vulnerable consumers could benefit from this approach, there was a third of vulnerable customers who struggled to maintain reduced consumption and would be financially worse off. It also highlighted increased anxiety among some vulnerable consumers, and the risk that some may suffer excessive discomfort in an effort to stay within their peak allowance, potentially putting their health and well-being at risk.

In both examples discussed above it is clearly important to balance the desire to reduce peak electricity consumption rates (to avoid the need for additional generation capacity and reduce the overall cost of electricity), against the essential service it delivers to maintain the health and well-being of vulnerable consumers in the face of climactic extremes. Households living in poor quality housing with inefficient appliances have limited capacity to reduce their exposure to extreme heat, and older households may underestimate their vulnerability to adverse health outcomes. Medical cooling concessional arrangements currently do not adequately address the health and financial risks for those reliant on air conditioning, and this situation will be exacerbated as our population ages and the number of extreme weather events continues to increase.

[16] Tom Houghton & Chris Twomey (2018) *Power plans for electricity: The impact of tariff structure changes on energy vulnerable households.* BCEC. (in press)

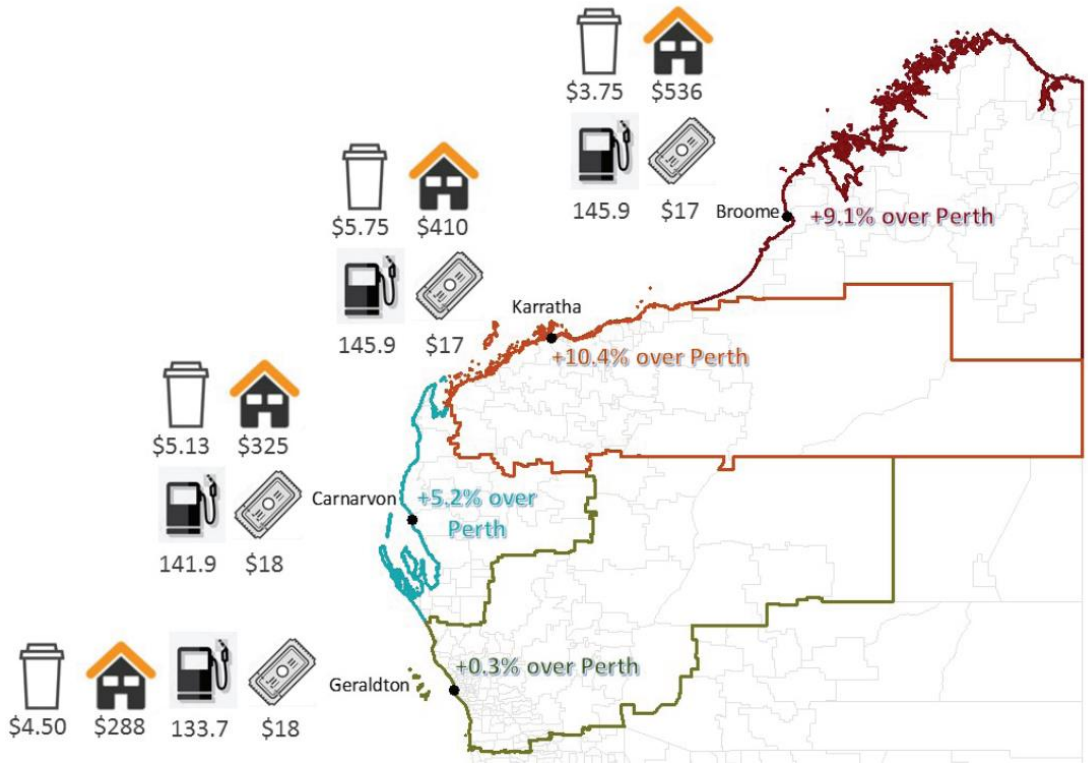
The 2017/18 State Budget saw an increase to water, sewerage and drainage fees by 6 per cent, which was around $96.92 for the representative household.[17] This was followed by a 5.5 per cent increase in the 2018/19 Budget – equivalent to $91.04 for the representative household.[18]

Alongside the increases to other household fees and charges, such as the Emergency Service Levy and motor vehicle fees, the representative household saw an increase of 7.74 per cent in 2017-18 (equating to around $438.39) and a further 4.8 per cent in the 2018/19 Budget (around $292.07).

The rising cost of utilities and significant increases to other household charges in Western Australia is clearly outpacing the ability of those on low incomes to be able to pay for it. **A rise in the minimum wage is essential so that those on low incomes are able to cover their power bills and maintain their living standards.**

3.4 Costs in the Regions

It is important when considering the adequacy of the minimum wage that differences in the cost of living for regional areas is taken into account, particularly in the north of the state. As can be seen in the image below, the northern regional areas can face significantly higher costs such as for a cup of takeaway coffee, median rent of a house, a litre of unleaded petrol and an adult international-release movie ticket at a typical cinema. These items were selected by Bankwest Curtin Economics Centre as representatives from their weights in expenditure bundles for Western Australians.



Source: Bankwest Curtin Economics Centre (2017) *The Price is Right*

[17] *WA State Budget 2017/18*, Budget Paper 3, p 310
[18] *WA State Budget 2018/19*, Budget Paper 3

As part of our 2017 *Cost of Living Report*, WACOSS examined the differences in costs of essential items for our model households in regional areas. For the full discussion, please see the report.

The most dramatic regional variations could be seen in relation to weekly expenditure on utilities.

Weekly Expenditure across Network Areas - ELECTRICITY					
	SWIS	NWIS	West Kimberley	Gascoyne/ Mid-West	Esperance
Single parent	$15.52	$39.03	$34.47	$19.67	$12.84
Working family	$31.04	$58.70	$53.33	$35.92	$27.88
Unemployed person	$8.85	$18.07	$16.28	$10.48	$7.80
Age pensioners	$22.41	$45.92	$41.36	$26.56	$19.72

Source: Calculations. Data supplied by Synergy and Horizon Power

All household models were shown to be consistently spending twice as much on electricity in the Northwest Interconnected System (Pilbara) and West Kimberley as they do in the Southwest Interconnected System (Perth, Peel and Southwest), only marginally more in the Gascoyne and Midwest, and slightly less in the Esperance region.

Weekly Expenditure across the Regions – WATER										
	Perth	Gascoyne	Goldfields Esperance	Great Southern	Kimberley	Mid West	Peel	Pilbara	South West	Wheatbelt
Single parent	$7.10	$10.82	$15.06	$6.96	$17.33	$9.89	$6.89	$37.60	$8.20	$13.89
Working family	$8.62	$13.00	$17.98	$8.46	$20.66	$11.90	$8.37	$44.50	$9.91	$16.60
Unemployed person	$2.87	$4.33	$5.99	$2.82	$6.86	$3.97	$2.79	$14.83	$3.30	$5.53
Age pensioners	$3.55	$5.41	$7.53	$3.48	$8.67	$4.94	$3.44	$18.80	$4.10	$6.94

Source: Calculations. Data supplied by the Water Corporation

While all our household models spend a comparatively small proportion of their overall weekly budget on utilities (around 4 to 5 per cent) in the Perth region, the significant increase in regional electricity expenditure combined with the seasonal and intermittent nature of electricity bills is likely to mean that low-income regional households are much more at risk of bill shock, and more likely to get into utility debt during the peak summer period.

Consumption patterns and costs for water show a similar but even more extreme pattern – with households in the Pilbara consuming 78 per cent more water and spending **five times** as much as those in Perth, with the Kimberley and Goldfields not far behind (2.3 to 2.4 times) and those in the Wheatbelt and Gascoyne and Mid West also spending around double. It is crucial that the minimum wage is set at a sufficient level to meet the living costs for those in regional WA and not just those living in the Perth metropolitan area.

3.5 Financial Counselling Data

Last year WACOSS compiled the income and expenditure data provided by the WA Financial Counselling Network of 265 households who sought the assistance of a not-for-profit community-based financial counselling service in the week of September 4, 2017. This data revealed the real-life living cost pressures being faced by households in our state experiencing financial hardship and stress and can be found in detail in the 2017 WACOSS *Cost of Living Report*.

WACOSS and the Bankwest Curtin Economics Centre benchmarked the results against the household expenditure patterns captured by the *2016 ABS Household Expenditure Survey*. This is the first time that this type of analysis has been undertaken, and the results are quite dramatic.

Percentage of Expenditure – HES 2015/16										
	All	Mortgagees & Renters	Lowest quintile*	Highest quintile	Perth	Rest of WA	Low economic resource	FS 0	FS 1	FS 4
Housing	26.0	35.9	41.2	33.2	37.3	31.0	39.1	33.0	33.6	39.9
Food	18.0	15.2	17.1	13.1	15.1	15.8	17.3	15.5	17.0	16.3
Transport	10.0	8.9	6.2	10.0	9.1	8.2	7.5	12.1	10.5	9.6
Utilities	4.0	3.3	5.0	2.2	3.2	3.7	4.3	2.8	3.7	5.8
Recreation	11.0	8.9	6.1	11.3	8.3	10.7	6.1	9.0	7.2	1.9
Health	6.0	4.5	3.4	4.7	4.5	4.5	3.6	4.1	3.8	2.5
Communication	4.0	3.4	4.1	2.7	3.3	3.8	4.0	3.2	3.9	4.4
Education	2.0	2.0	0.6	3.5	2.1	1.5	1.3	2.2	1.8	1.2
Clothing and footwear	2.0	2.0	1.4	2.3	2.0	2.1	2.1	2.5	2.5	2.1

Percentage of Expenditure – FINANCIAL COUNSELLING DATA								
	All	Low income	Wages-only	Centrelink and NSA	Rent only	Mortgage only	Perth	Region
Housing	48.5	48.2	50.9	46.3	44.2	55.2	49.3	46.7
Food	18.1	19.3	15.1	20.2	20.5	15	17.4	18.9
Transport	10.3	10.4	11.2	9.8	10.4	9.9	10.5	10.4
Utilities	5.5	6.3	4.5	6.3	6.4	4.3	5	7.1
Communication	4.7	4.8	7.6	4.6	5.1	4.1	4.4	4.8
Health	3.6	3.4	6.4	3.4	3.5	3.5	4.2	3.3
Education	2.1	1.4	2	2.3	2	2	3.2	1.5
Recreation	1.6	1.2	2	1.4	1.5	1.5	1.3	2
Clothing and footwear	1	1	0.8	1.1	1.1	0.7	0.6	1.3

Note: * Adjusted by excluding the lowest two percentiles. Financial stress marker indicators refer to 0 (none), 1 (one) and 4 (four or more) markers of financial stress. NSA refers to Newstart Allowance.

Housing stands out as the single largest living cost for WA households in the HES data, with rent on average making up around 26 per cent of weekly expenditure for all households in the 2016 Household Expenditure Survey, ahead food (18 per cent), transport (10 per cent) and recreation (11 per cent).

However, the financial counselling data clearly shows that those who sought assistance for financial hardship have *significantly* higher housing costs as a proportion of weekly expenditure - on average 48.5 per cent of all their spending – close to double that of an 'average' household in the HES.

Note that we need to be wary of averages in interpreting the HES data, as it provides an average of housing costs across *all* households – including those who own their own home. When we dig deeper into the data to include only those households who are renting or have a recent (post 2009) and more substantial mortgage, we see their housing costs are somewhat higher (36 per cent) – but still much lower than those in financial hardship.

This still holds true when we look at the most vulnerable groups in the HES data – those in the lowest quintile (41 per cent), those tagged as 'low resource households' (with low income and low wealth) 39.1 per cent and those with one indicator (34 per cent) or more than four indicators (40 per cent) of financial stress. Those in financial hardship are spending at least a fifth more on their housing costs – and being forced to cut back in other areas.

As the single largest living cost for WA households, housing is also the biggest contributor to financial hardship. It is interesting to note that those households in financial hardship whose income is derived solely from wages are spending the most on housing - more than half (50.9 per cent, or an average of $806.20 per week) of their disposable income. They comprised 42.6 per cent of the people seeking financial counselling assistance. By comparison, those reliant on Centrelink income support payments such as Newstart Allowance are spending a comparatively lower proportion on housing (46.3 per cent or $501.96 per week). This is still much higher than that spent by the lowest quartile income group (corrected) in the HES (41 per cent), the low resource group (39 per cent) and the group with four or more indicators of financial stress (40 per cent).

We see a similar pattern of differences in housing costs across metropolitan and regional households – with average households in Perth spending 37 per cent of income on housing costs compared to average regional households spending only 31 per cent, while Perth households in financial hardship are spending 49 per cent on housing and regional households in hardship 47 per cent.

Comparison between those households in financial hardship who have a mortgage and those only paying rent strongly suggests that the size of their mortgage is likely to be the reason the former group are in financial trouble, given they are spending well over half (55.2 per cent) of their weekly budget on housing alone (as opposed to 44.2 per cent for those in financial hardship who are renting). For some households this may be an indication that their circumstances have changed, a loss of employment and a reduction of income may have placed them in circumstances where they are struggling to keep hold of their home and could be forced to sell it if their circumstances do not improve or if interest rates rise.

While there is often an assumption that households in financial hardship are necessarily those on lower incomes, there is evidence emerging to suggest that this is not necessarily the case. The current *Australian Securities and Investment Commission* case against Westpac has suggested that when assessing whether borrowers could meet their repayment obligations for home loan contracts, they may have used a benchmark instead of the actual expenses declared by borrowers in assessing their ability to repay the loan; may have approved loans where a proper assessment of a borrower's ability to repay the loan would have shown a monthly deficit; and for home loans with an interest-

only period may have failed to have regard to the higher repayments at the end of the interest-only period when assessing the borrowers' ability to repay.[19] Alongside other reports from the Banking Royal Commission,[20] this suggests that low-income earners with mortgages may have been provided with home loans in excess of what is actually within their ability to repay, with allowances for weekly living costs that effectively see them living at or below the poverty line.

While expenditure on food is the second largest ongoing weekly commitment for all household types, the patterns of expenditure on food between average households and those in financial hardship do not vary that significantly. Those on lower incomes spend a slightly higher proportion but a comparable amount per week – reflecting that a certain unavoidable level of expenditure on food is essential for daily life.

By comparison, rates of expenditure on utilities are slightly higher for households in financial hardship (5.5 per cent versus 4 per cent for an average household). Those in financial hardship on the lowest incomes and reliant on income support payments spend proportionately more (both 6.3 per cent), than the most vulnerable groups identified in HES (lowest quintile 5 per cent, low resource 4.3 per cent, those with four or more indicators of financial stress 3.7 per cent) This suggests that higher utility costs may contribute to financial hardship overall, but nowhere near the extent that housing costs do. Utility hardship might be best thought of as a symptom of financial hardship rather than a cause – the bills are infrequent and unpredictable and one of the first things to be put to the side when there simply isn't enough to go around.

In contrast, expenditure on potentially avoidable items that relate more directly to the quality of life is significantly lower in households in financial hardship – recreation accounts for 11 per cent of spending for the average household, but is only around 1.6 per cent of spending for those in trouble. Health spending for those in hardship is just 3.6 per cent, compared to 6 per cent for the average household. Spending on education, communication and personal care are also cut back in an effort to make ends meet.

Research by the Fair Work Commission indicated that in 2015, 31 per cent of low-paid employee households, twice the share of all employee households (16 per cent), had experienced financial stress.[21]

It is important we recognise that it costs us all more as a community when households on low incomes or in financial trouble cut back on their access to primary health care, the quality of their food and nutrition, and their recreational activities. This leads to higher rates of chronic disease, greater demands on our hospitals and tertiary care systems, reduced productivity and life expectancy.

Without a $50 per week increase to the level of the state minimum wage, those workers earning a minimum wage will struggle with the cost of living and may fall into financial hardship.

---

[19] Australian Securities and Investment Commission (2017) *Media Release: ASIC commences civil penalty proceedings against Westpac for breaching home-loan responsible lending laws*

[20] M Janda, D Chau (2018) *ABC News*, www.abc.net.au/news/2018-03-19/banking-royal-commission-anz--evidence-mortages-will-ranken-hem/9562136

[21] Fair Work Commission (2017) *Statistical report – Annual Wage Review*

4.0 Income and Wealth Inequality

Inequality is a problem for any society. It means that people have unequal ability to take part in social and economic opportunities, and it undermines the cohesiveness of that society. Inequality is also a problem for our economy. Resources become concentrated in fewer hands, resulting in reduced economic participation for the majority. This in turn leads to fewer new businesses started; fewer house purchases; and fewer goods and services bought. It can also lead to increased dependency on government intervention.

As we have highlighted in previous submissions the Commission for the State Wage Case, a 2015 OECD report found:

> *Drawing on harmonised data covering the OECD countries over the past thirty years, the econometric analysis suggests that income inequality has a sizeable and statistically significant negative impact on growth, and the achieving greater equality in disposable income through redistributive policies has no adverse impact on growth.*[22]

In fact, between 1985 and 2005 income inequality rose by more than 2 Gini points on average across 19 OECD countries, which is estimated to have resulted in cumulative growth between 1990 and 2010 being 4.7 percentage points lower.[23]

This study reinforces the findings by Ostry, Berg and Tsangarides (2014) from the International Monetary Fund's (IMF) Research Department, who released a significant report on the topic of inequality in 2014. Titled *Redistribution, Inequality, and Growth.*[24] One of the report's key conclusions is that "lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution."[25]

A 2012 OECD report stated that higher minimum wages tend to be associated with compressed income distribution, thus contributing to a reduction in income inequality.

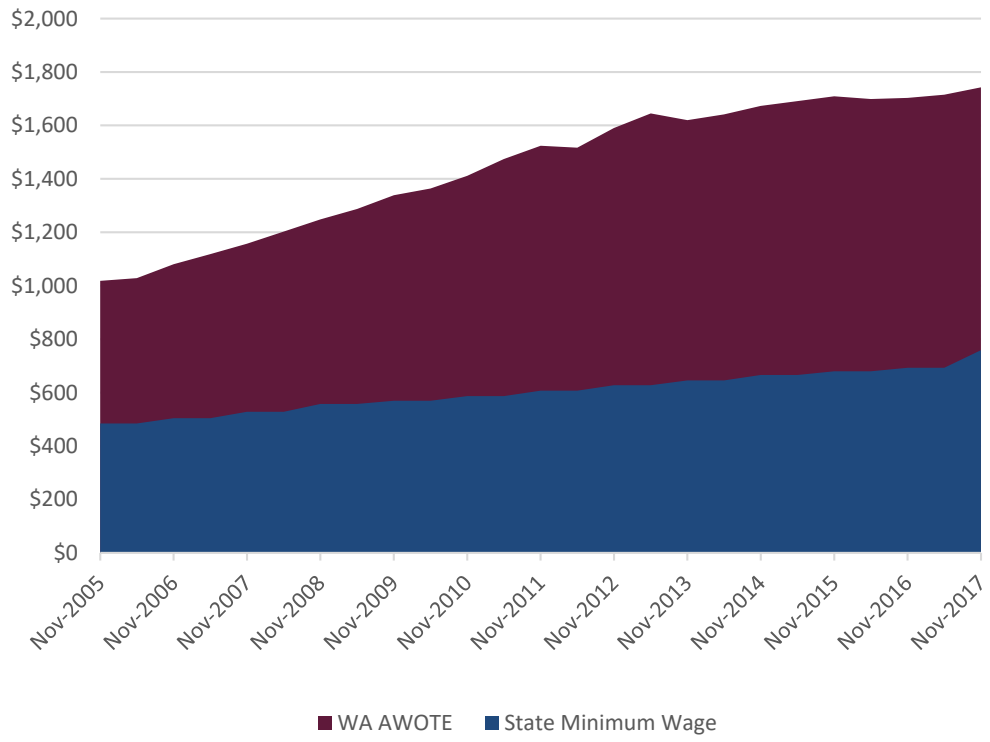
> A rise in the minimum wage raises the income of those at the bottom of the income distribution, thereby contributing to greater income equality. This positive link between the level of the minimum wage (as a ratio of the median wage) and income equality is supported by the existing empirical literature and by new analysis of country-level data.[26]

[22] OECD (2015) 'The Impact of Income Inequality on Economic Growth', *In It Together: Why Less Inequality Benefits All*, OECD Publishing, http://dx.doi.org/10.1787/9789264235120-en
[23] Ibid. 'Overview of inequality trends, key findings and policy directions', p. 26
[24] JD Ostry, A Berg & CG Tsangarides, (2014) *Redistribution, Inequality, and Growth*, International Monetary Fund Staff Discussion Note
[25] Ibid, p.4
[26] OECD (2012) 'Inequality in labour income – What are its drivers and how can it be reduced?', *OECD Economics Department Policy Notes*, No. 8, p 5

The wage compression finding that minimum wages serve to raise wages relatively more at the lower end of the wage distribution has also been documented by a number of different researchers.[27]

WACOSS remains concerned about the rate at which the gap between the state minimum wage rates and median pay levels has grown in Western Australia. As of November 2017, the minimum wage was only 40.7 per cent of the WA Average Weekly Ordinary Time Earnings (AWOTE). In November 2005, the minimum wage was 47.6 per cent of the WA AWOTE.

Figure 8: WA AWOTE vs State Minimum Wage



Source: ABS 6302.0, WA Department of Commerce

Since 2005, AWOTE increased in WA by 71.2 per cent, while the State Minimum Wage has only increased by around 46 per cent.

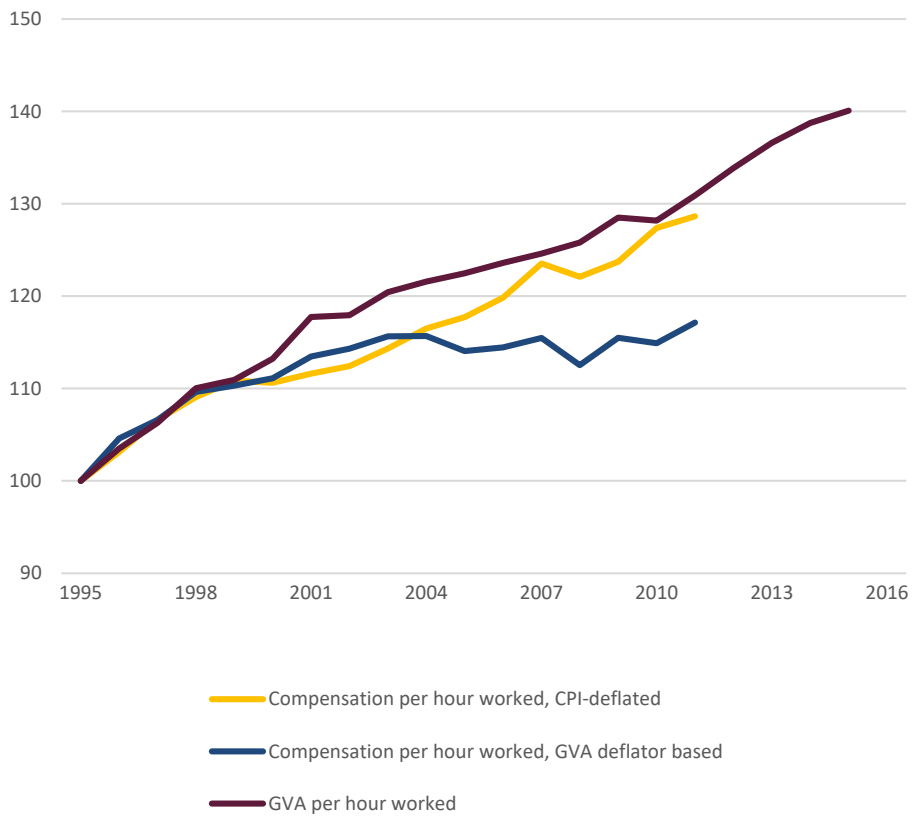
A $50 increase to the minimum wage will not be enough to reverse this trend of growing inequality. Based on the November 2016 WA AWOTE, a $50 increase would still only bring the State minimum wage up to 43.5 per cent of WA AWOTE - 2.5 per cent lower than November 2005.

Allowing the inequality within the Western Australian community to deepen, which would result from an insufficient increase to the minimum wage, will result in longer periods of less sustained economic growth.

Inequality in Australia is linked to the pronounced break that has developed between productivity growth and the income workers receive as compensation for their labour.

[27] M Hallward-Driemeier, B Rijkers, A Waxman (2015) 'Can Minimum Wages Close the Gender Wage Gap?', *Policy Research Working Paper*, World Bank Group, p 46

Figure 9: Labour productivity and average labour compensation



Source: OECD *Compendium of Productivity Indicators 2017*

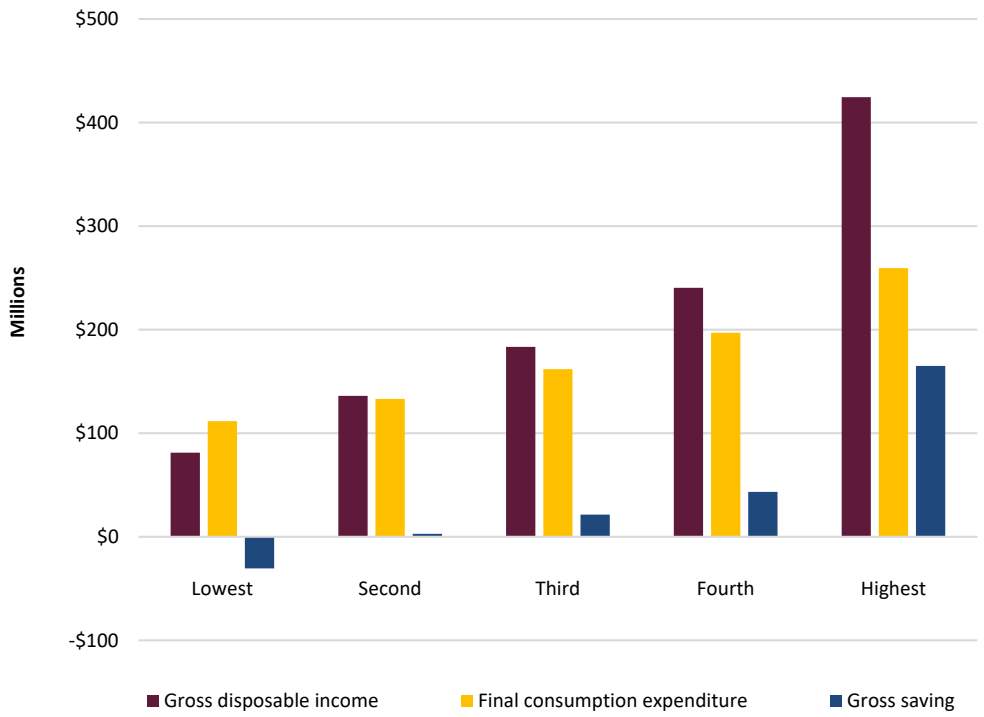
This divergence has seen the Phillip Lowe, the Governor of the Reserve Bank of Australia, call for a faster rate of wage growth, which he deemed to be possible even if productivity growth did not shift from the average of recent years. According to Mr Lowe, this growth in wages would "boost household incomes and create a stronger sense of shared prosperity."[28]

The relationship between income and wealth is an important one, as wealth can act in and of itself as a source of income, and income (where sufficient) can provide a means by which to accumulate wealth. Further wealth, in the form of accessible savings or liquid assets, can act as a buffer to enable greater workforce mobility and financial resilience, so that workers moving in and out of insecure employment or pursuing more promising future prospects have the capacity to be more mobile and financially secure.

The relationship between income and (largely non-discretionary) expenditure means that every extra dollar a low-wage worker earns is more than likely to end up boosting demand for goods and services, with those on the lowest incomes spending a proportionally higher amount of their earnings.

[28] P Lowe (2018) *Remarks to A50 Dinner* www.rba.gov.au/speeches/2018/sp-gov-2018-02-08.html

Figure 10: Household Income, Consumption and Saving by equivalised household income quintile, 2014-15



Source: ABS 5204.0.55.011 Table 1.7

Figures compiled for *The West Australian* newspaper by the National Centre for Social and Economic Modelling (NATSEM) in May 2017 have shown that the tax paid by a single parent on the minimum wage will have increased by almost two thirds between 2012 and 2018. Singles on half the average income have seen the same (66 per cent) increase in their tax burden while their disposable income increased by just 7.6 per cent over the same period. People on the minimum wage who were also receiving some form of government assistance saw a 44 per cent increase in their tax bills.[29]

Those who were earning double the average wage however, saw their tax bill increase by only 21 per cent – a rate lower than any other income group examined in the NATSEM data.

Since 2015, Australia has been a signatory to the United Nations Sustainable Development Goals. These goals commit us to progressively achieving and sustaining income growth for the bottom 40 per cent of the population at a rate higher than the national average by 2030.[30] Increases in the Western Australia state minimum wage alone will clearly not be sufficient to achieve these international goals. It is our contention, however, that as a result of the compressed income distribution association mentioned earlier, it is a necessary measure towards those goals.

To this end, a $50 per week increase to the level of the state minimum wage is a small but important contribution the Commission can make to mitigating further growth in the level of

[29] Shane Wright (2017) 'Budget 2017: Lowest paid workers to pay for surplus', *The West Australian*, 2 May 2017 https://thewest.com.au/news/wa/low-paid-foot-bill-for-surplus-ng-b88461253z

[30] United Nations, 'Goal 10: Reduce inequality within and among countries, *Sustainable Development Goals*, http://www.un.org/sustainabledevelopment/inequality/

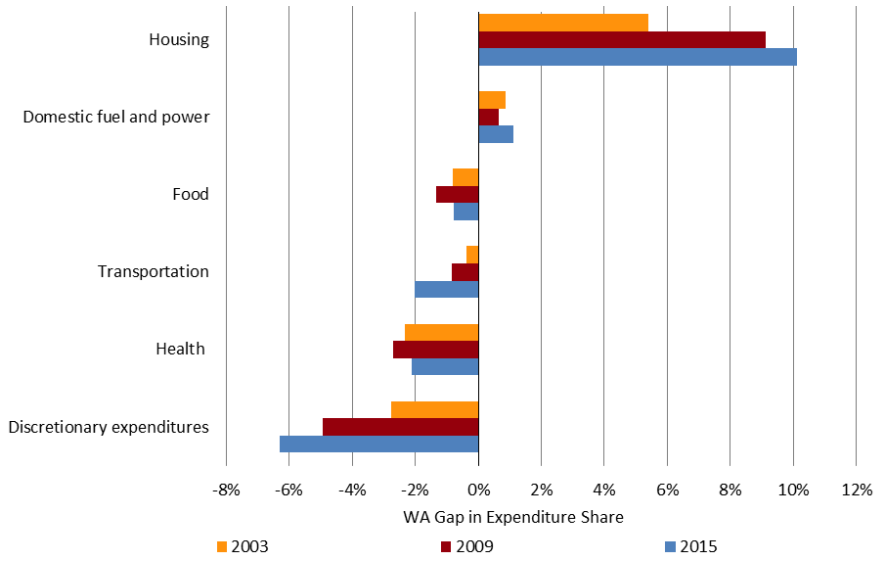
inequality, and thus contribute to the delivery of stronger economic and social outcomes in Western Australia.

5.0 The Impact of Poverty

Where the level of someone's household income precludes them from having an acceptable standard of living, they can be described as living in poverty. Using the standard Henderson poverty line of less than 50 per cent of median income, we can see that in Western Australia there are around 17.6 per cent or 360,000 Western Australians living poverty. Further analysis shows that an additional 150,000 Western Australians are at risk of financial hardship should they face an unforeseen crisis.[31]

Figure 11 demonstrates that those in financial stress are increasingly spending more on housing and utilities than the average Western Australian household, forcing them to cut their spending in more discretionary areas.

Figure 11: WA Gap in Expenditure Shares, Households with Financial Stress Measures, Relative to Average WA Household, 2003-2015



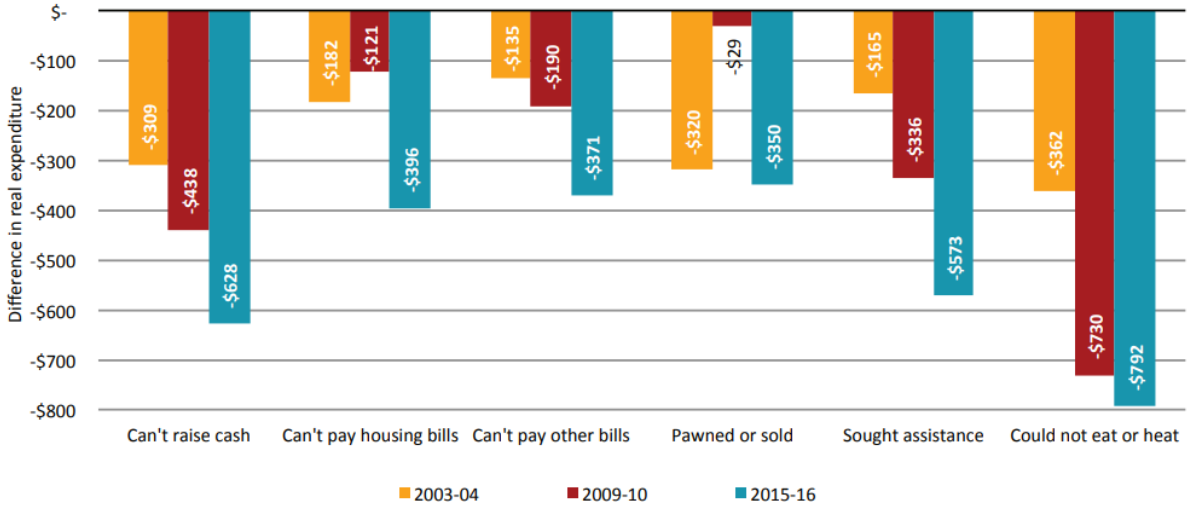
Source: Bankwest Curtin Economic Centre | Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16

The next Figure demonstrates the deterioration of the situations being experienced by households with any financial hardship and deprivation measures. The gap in their real expenditure compared to the rest of WA households has at least doubled in the last 12 years and households in financial stress (all measures combined) spend in 2015-16, an average of $520 less per week than the rest of WA households.[32]

[31] Ibid.

[32] Bankwest Curtin Economics Centre (2017) *The Price is Right: An Examination of the Cost of Living in Western Australia,* Focus on Western Australia Report Series No. 10

Figure 12: Difference in real expenditure, households with financial hardship and deprivation measures, relative to the rest of WA households, 2003-04 to 2015-16

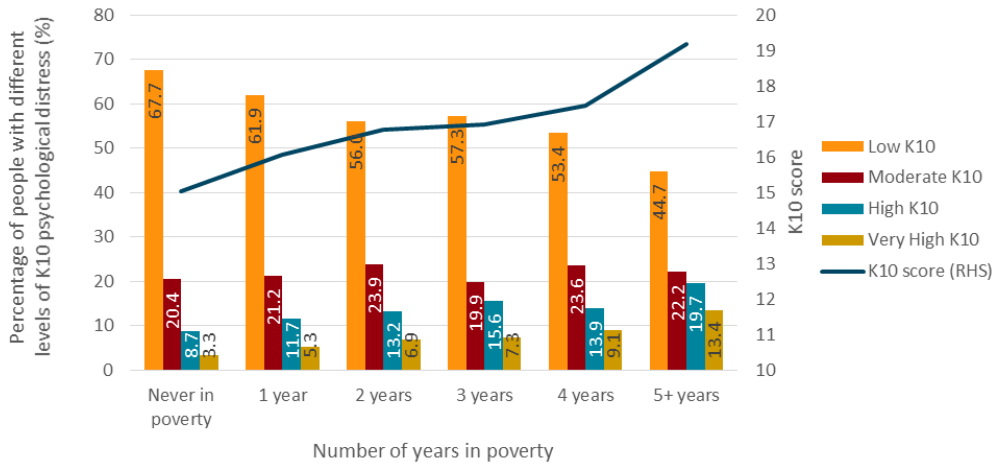


Source: Bankwest Curtin Economic Centre | Authors' estimates based on ABS Household Expenditure survey, 2003-04, 2009-10 and 2015-16

This is the undoubtable consequence of the fact that people on the lowest incomes simply do not have enough money.

Poverty is a well-established social determinant of health,[33] including psychological health. Persistent poverty plays a demonstrable role in increasing levels of psychological distress.[34]

Figure 13: Persistent poverty and psychological distress



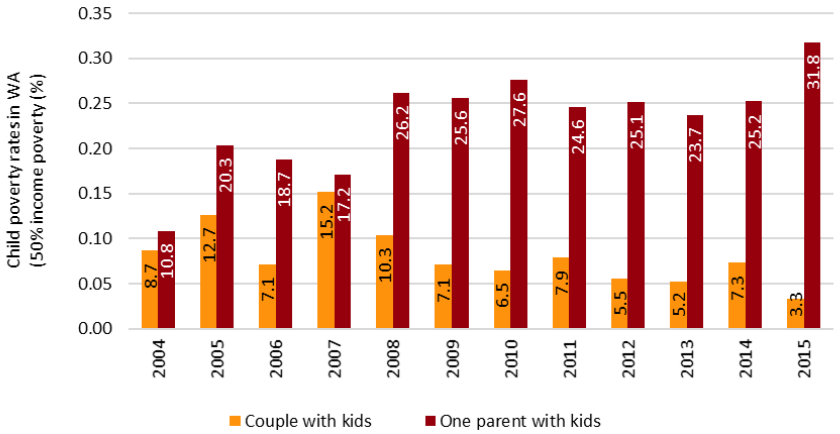
Being single, either with or without children, significantly increases a person's likelihood of being in poverty, being continuously over-represented throughout all poverty depth groups. Over one-quarter of single parent households are in poverty and one in seven is experiencing severe poverty.

Growing rates of child poverty wihin Western Australia are a significant cause for concern because of their long-term implications for the future health, wellbeingand life prospects of our children. The poverty rate for children in single parent households is currently more than nine times the rate of

[33] M Marmot (2005) 'Social determinants of health inequalities' *The Lancet*, Vol 365, Issue 9464
[34] Bankwest Curtin Economics Centre (2017) *The Price is Right*

children up in households with both parents, with around 1 in 3 children in single parent households living in income poverty. This has been continually widening, particularly on the back of the Welfare to Work reforms in 2005-06, the Global Financial Crisis in 2008-09 and the further extension of Welfare to Work to all single parents in 2013 (see figure 14).

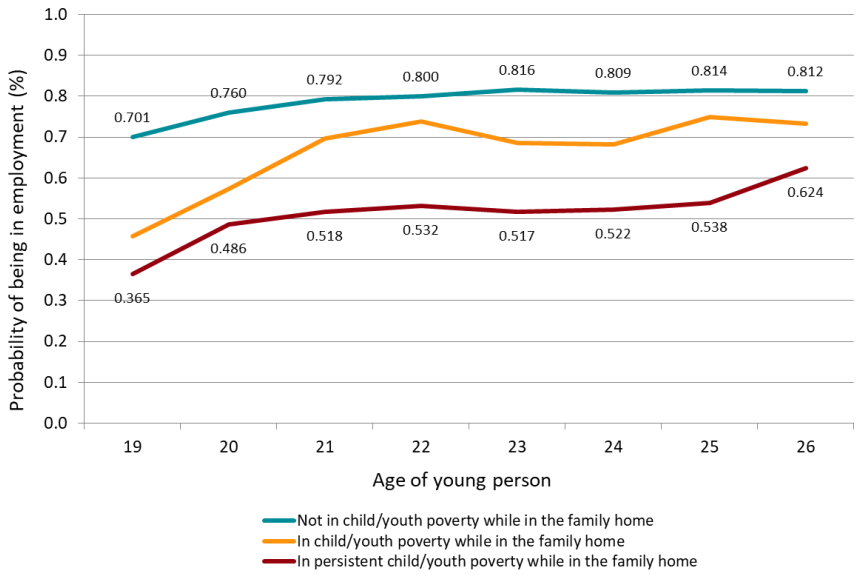
Figure 14: Child Poverty Rates in Western Australia



Source: Rebecca Cassells (2018) *Economic and Social Outlook for WA*, Presentation to the WACOSS Emerging Issues Forum, Bankwest Curtin Economics Centre

Research by Bankwest Curtin Economics Centre has found that young people who have experienced poverty in the family home while growing up have much poorer employment outcomes than those that experienced a greater standard of living, and continue to experience poorer outcomes for many years after becoming independent. In particular, young people living in persistent poverty while in the family home had much poorer outcomes than all other groups, with a 36.5 per cent probability of employment at age 19 after leaving the home, compared to 70 per cent probability for those that did not experience any poverty. Seven years later, at the age of 26, they are still 19 per cent less likely to be unemployed that their counterparts.

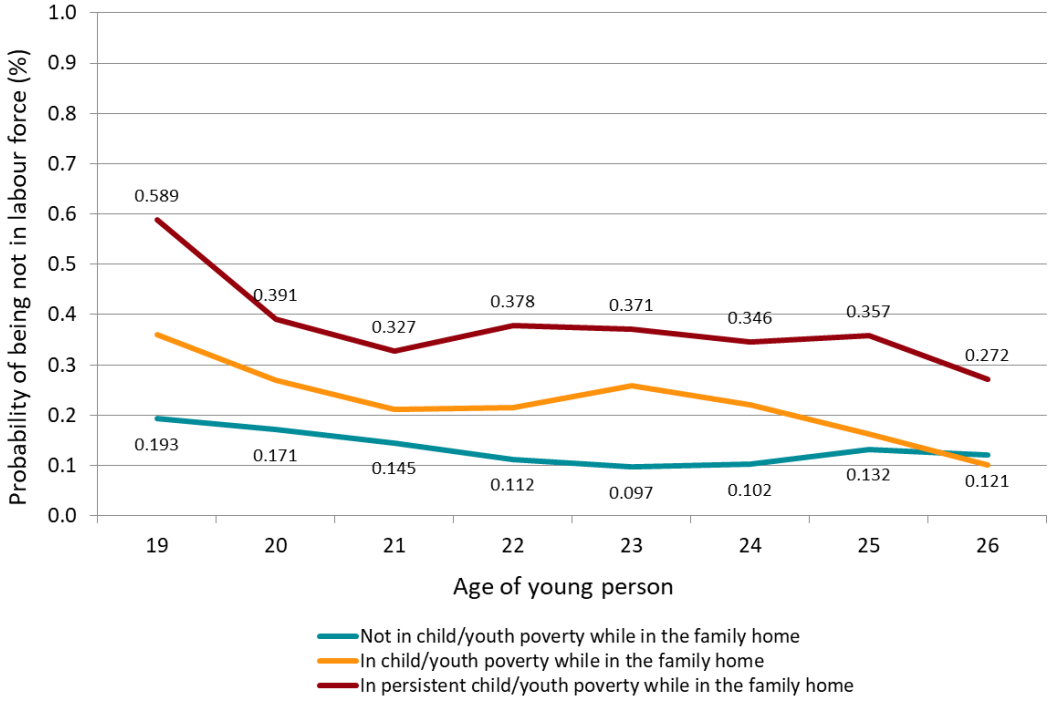
Figure 15: Employment rates of young people after leaving home



Source: Rebecca Cassells (2018) *Economic and Social Outlook for WA*, BCEC

Participation rates for young people that were in poverty while in the family home are also lower, with the probability of not being in the labour force at around 60 per cent at age 19, compared to 20 per cent for other households.

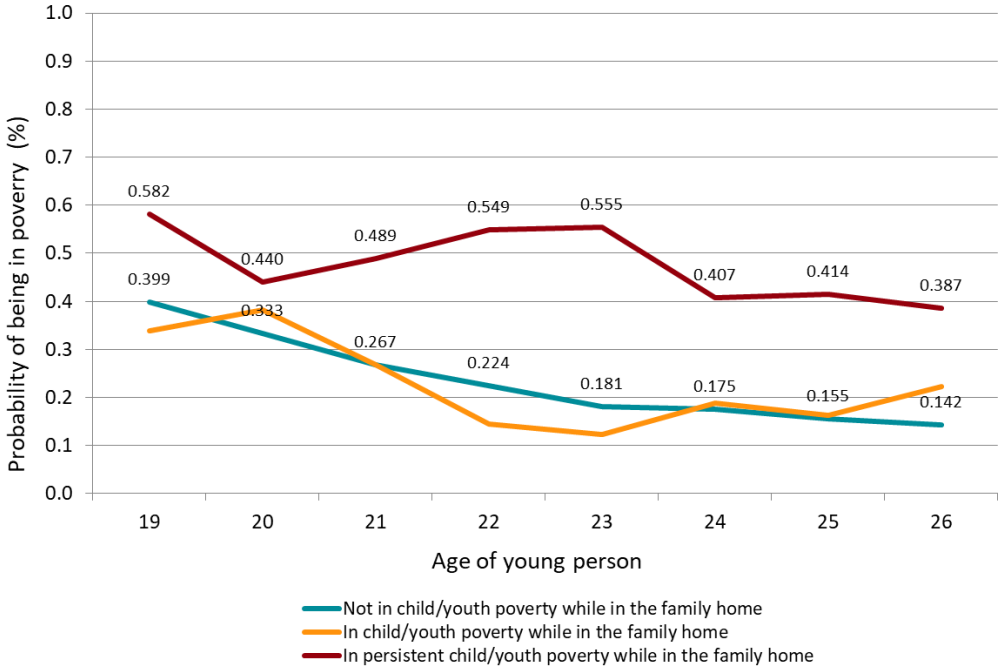
Figure 16: Non-participation rates of young people after leaving home



Source: Rebecca Cassells (2018) *Economic and Social Outlook for WA*, BCEC

The research also found that young people living in persistent poverty while growing up are significantly more likely to be in poverty after leaving home.

Figure 17: Poverty rates of young people after leaving home



Source: Rebecca Cassells (2018) *Economic and Social Outlook for WA*, BCEC

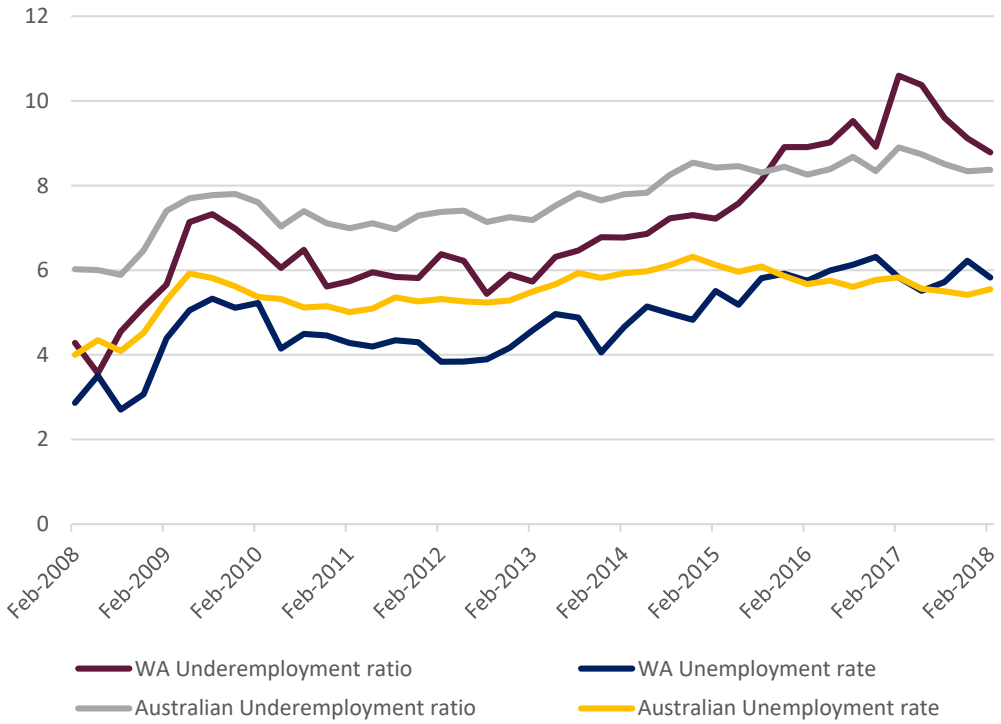
Young people, particularly those with backgrounds of hardship, are much more likely to be seeking and relying upon income from minimum wage positions, often moving in and out of short-term and precarious work. It is important to note the significant and persistent lag in poverty, participation and employment outcomes for young people making their own way in the world after emerging from persistent poverty. Compared to other young people, they lack the opportunity to call on family resources to meet unexpected financial costs or respond to periods of shortage, and often they may be providing ongoing support to parents and younger siblings still struggling with financial hardship. The wider relevance on the minimum wage to young workers is discussed in Section 7.3 below.

An increase to the minimum wage would be an important step towards enabling those in low-income households to improve their financial resilience, enabling them to respond more effectively to changing employment and financial circumstances. A lack of resilience and a concomitant increase in financial hardship means both an increase in reliance on financial counselling and emergency relief services (who are already reporting high levels of unmet need), and a reduction in labour market responsiveness – both of which impact adversely on the strength of our economy and the well-being of low paid workers and their families.

6.0 Part-Time and Casual Work

The nature of work within our community has changed dramatically in the last two decades, with increasing levels of short-term and insecure employment, increasing uncertainty in hours worked and income received from week to week, and increasing levels of underemployment – with WA's underemployment ratio consistently tracking above the national ratio since November 2015.

Figure 18: Quarterly Underemployment vs Unemployment (Seasonally adjusted)

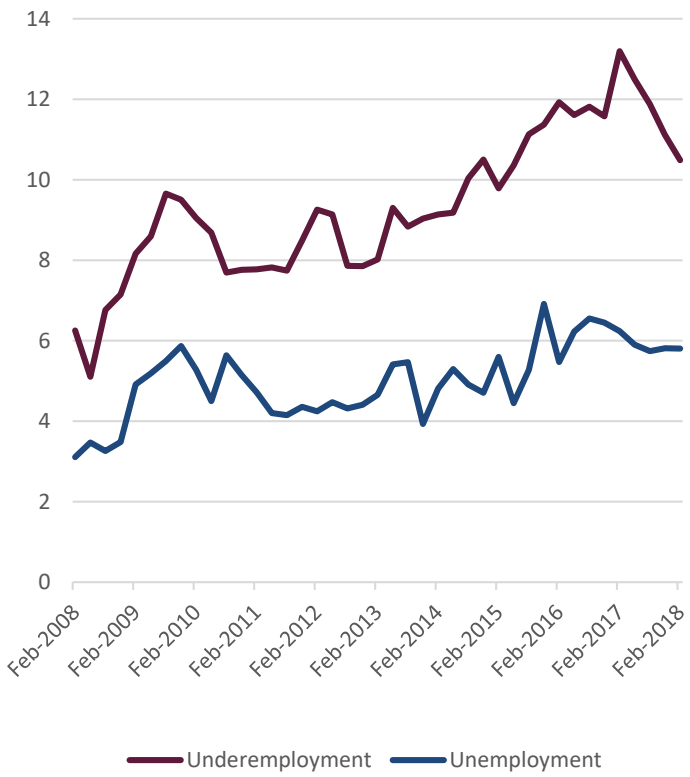


Source: ABS 6202.0 Tables 22 and 23

Underemployment continues to be significantly higher for women, with a current quarterly seasonally adjusted underemployment ratio of 10.5, while the male ratio is 7.3. The male underemployment rate is down from 8.6 in May 2017, but much of that decrease can be accounted for in the increase in male unemployment over the same period. The quarterly unemployment rate for women is slightly better at 5.8. The seasonally adjusted combined monthly unemployment rate sits at 6.9, with the monthly male rate at 7.2 and the monthly female rate at 6.4.

Figure 19: WA Male Underemployment vs Unemployment

Figure 20: WA Female Underemployment vs Unemployment



Source: ABS 6202.0 Table 23

Studies have shown that underemployment, like unemployment, can lead to poor mental health outcomes, as a result of a financial hardship and a lack of a sense of mastery and social support. The lack of adequate employment can lead to high levels of distress, which may in turn hinder employment and educational opportunities.[35]

Former FIFO workers and those employed in mining-related industries are increasingly finding themselves underemployed. The follow-on impact of the significant reduction they have experienced in their income, is to make the management of their mortgages and borrowings highly stressful and complex, leading to increased levels of default and financial hardship. They may find also themselves resorting to as payday lenders or high levels of credit card debt to make ends meet.

[35] L Crowe, P Butterworth, L Leach (2016) 'Financial hardship, mastery and social support: Explaining poor mental health amongst the inadequately employed using data from the HILDA survey' *SSM – Population Health* vol. 2, p. 408

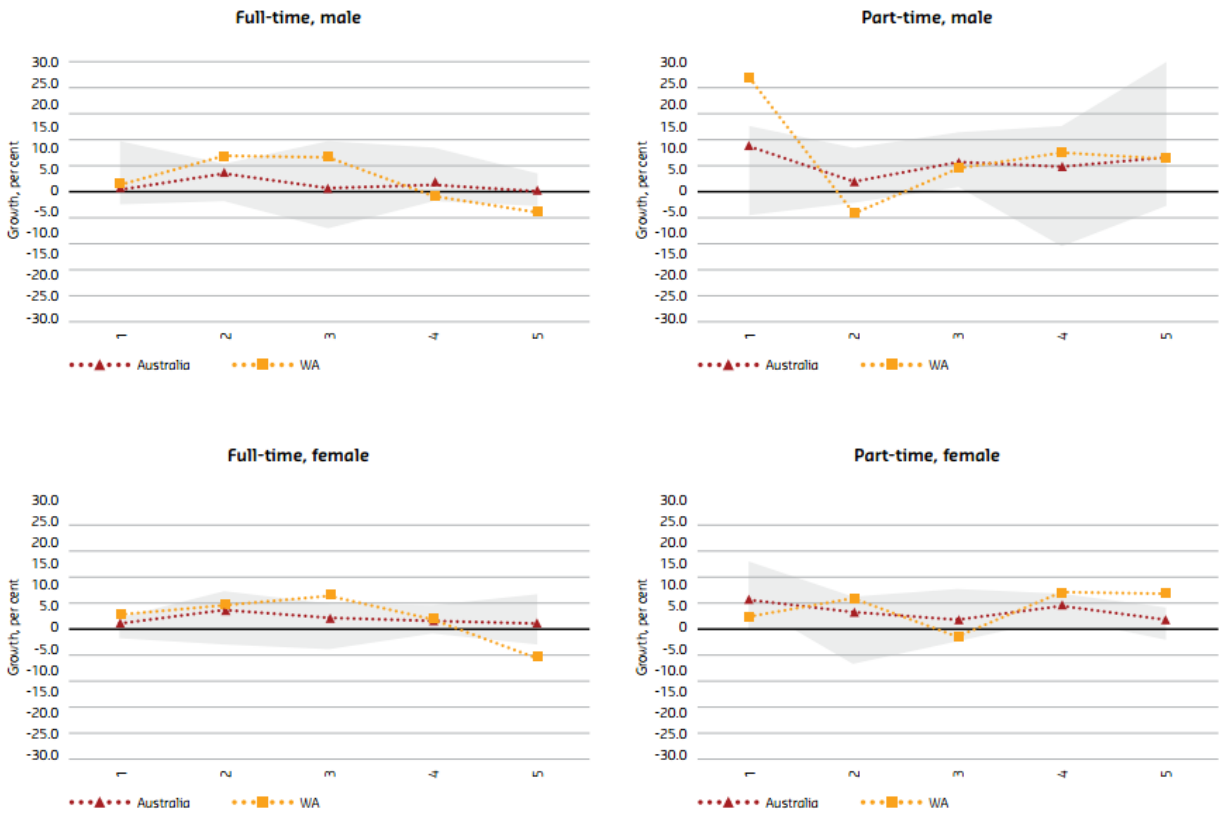
Figure 21: WA Full-Time Employment

Figure 22: WA Part-Time Employment

Source: ABS 6202.0 Table 8

The trend in the Western Australian labour market of a shift from full-time to part-time employment since the end of the mining boom, has been particularly pronounced in WA's female labour force, where the growth in part-time work is outpacing the rest of Australia. [36]

Figure 23: Growth in full-time and part-time employment by gender in WA versus rest of Australia, 2009 to 2016, per cent[37]

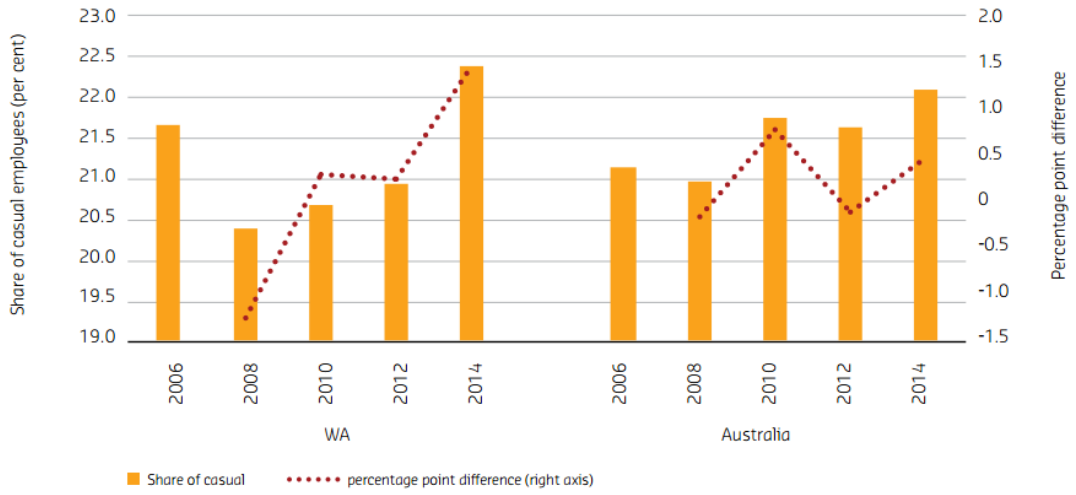


Notes: The shaded bands represent the maximum and minimum growth rates of all other states and territories combined.
Source: BANKWEST CURTIN ECONOMICS CENTRE | AUSTRALIAN BUREAU OF STATISTICS Cat. No. 6202.0

[36] Bankwest Curtin Economics Centre (2016) *Back to the Future: Western Australia's economic future after the boom, Focus on Western Australia,* Report Series No. 8, p 54
[37] Ibid.

Western Australia has also seen both a faster and greater growth in the share of casual employees than the rest of Australia across the last several years, rising to 22.5 per cent in 2014.

Figure 24: Share of casual employees, WA versus Australia, 2006 to 2014, per cent[38]



Notes: Tasmania and the territories are excluded from the figure because of small sample numbers.
Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors calculations using the HILDA Survey

WACOSS argues that as a result of the increasing casualisation and shift to part-time employment in the workforce, it is crucial that the Commission ensure that the State Minimum Wage is able to meet the needs of not only low paid full time workers, but that it also provides a fair wage for part-time and casual workers to be able to meet the living standards prevailing in the community.

Having considered the evidence and analysis, WACOSS is of the opinion that the interests of casual and part-time workers are not best served by keeping the minimum wage low. Contemporary economic literature and empirical studies have been unable to demonstrate conclusively the effect of changes to minimum wages in Australia on employment or hours worked. As noted in Section 7.3 of this submission, a study of youth labour markets found that there was no evident correlation between youth unemployment rates and minimum wage rises in Australia.

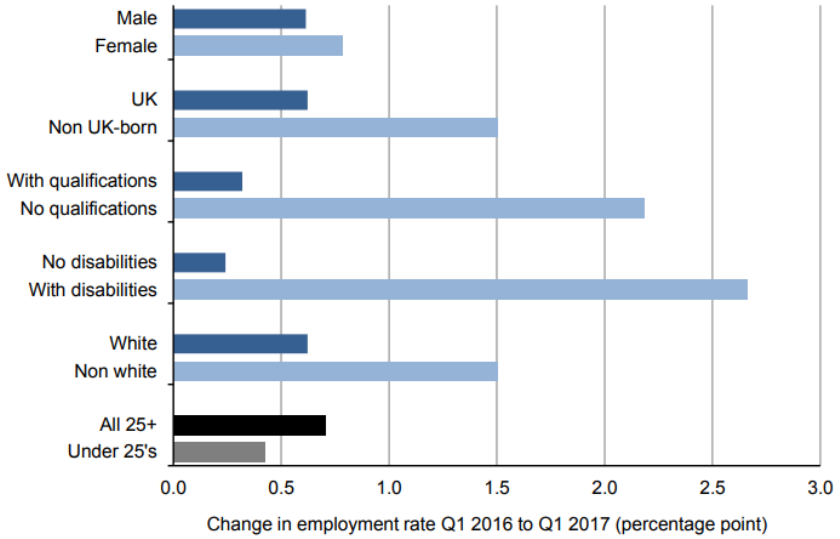
The Low Pay Commission in the United Kingdom continues to report that the research it has conducted since the introduction of the National Minimum Wage in 1999 has demonstrated that both its introduction and subsequent significant increases in the minimum wage in the UK have had no adverse effect on employment or hours at an aggregate level.[39]

In 2016, the UK introduced a new National *Living* Wage at a rate of £7.20 for those aged 25 and over. The NLW is intended to reach the level of 60 per cent of median earnings by 2020. The introduction of the NLW meant that the UK minimum wage increased by 10.8 per cent over the year to April 2016. As of April 2018 it sits at £7.83 and is around 57 per cent of median earnings. This is a much higher percentage increase than the 7.1 per cent rise involved in increasing the WA minimum wage by $50 per week, as recommended.

[38] Ibid. p 57
[39] Low Pay Commission (2017) *National Minimum Wage Report*

Research from the Low Pay Commission on changes in employment rates in the year following the introduction of the NLW demonstrates how all groups that were identified as being more exposed to the initial rates of the NLW saw stronger employment growth than both their comparators, and all workers aged 25 and over as a whole.

Figure 25: Change in employment rates for those aged 25 and over, by worker characteristics, UK, 2016-2017[40]



Source: LPC estimates using: LFS Microdata, population weights, quarterly, four quarter moving average, UK, Q2 2015 to Q1 2017, UK.

Though it is important to be cautious of drawing conclusions for Western Australia's wage system from international comparisons, it provides a useful point of consideration against the view that significant minimum wage increases may have a negative employment impact.

7.0 The Impact on Specific Cohorts

7.1 Community Sector Workers

Community sector service providers play an important role in supporting vulnerable members of the WA community, including many who struggle to survive on low wages due to rising costs of living. **The community sector's capacity to provide quality services to support vulnerable members of the community depends on the availability of suitably skilled employees, many of whom rely on award systems for their wages.**

The community services sector in Western Australia has consistently been under-resourced, and sector employees have been significantly underpaid when compared to public sector employees undertaking similar work.

According to the Fair Work Commission, 440,000 Australian employees (28.8 per cent of all employees) in health care and social assistance were award-reliant in 2016. The sector was in the

[40] Ibid.

top four industries with the highest proportions of award-reliant workers, together with the retail, accommodation and food services, and administrative and support services sectors.[41]

Within WA, around 58 per cent of the expenditure by WA charities and not-for-profits is on employee expenses, totalling around $6.68bn. Employee expense are generally spent within the WA economy, and often within the local geographic area in which the charity operates, creating a multiplier effect. Staff on lower average salaries tend to spend a higher proportion of their salaries on daily living expenses, adding to this multiplier effect. As such, the $6.7bn in annual employee expenses makes a significant contribution to WA's economy. Given that demand for community services tends to be counter-cyclical and that 47% of services are funded from public sources the charitable sector may be less subject to market forces and 'boom-and-bust' cycles than for-profit sector industries, hence playing a key role in diversifying our economy and increasing its resilience.[42]

Recent research by the UK Women's Budget Group of public investment in seven OECD countries, including Australia, revealed the dramatic positive benefits to the economy and employment where that investment happens in social infrastructure, including education, care and health services, and social care activities, as opposed for instance to the construction of physical infrastructure.[43]

According to the research, if 2 per cent of GDP was invested in the care industry, and there was sufficient spare capacity for that increased investment to be met without transforming the industry or the supply of labour to other industries, that investment would directly create 356,812 new jobs and raise the employment rate by 2.3 per cent. Including both the indirect effects through the supply chain and the induced effects from increased demand within the economy, sees the creation in Australia of 613,597 new jobs and a rise in the employment rate by 4.0 per cent.

This is contrasted with the same level of investment into the construction industry, which would create 74,791 jobs directly and 387,452 jobs when induced and indirect effects are included, raising the employment rate in total by just 2.5 per cent.

Even more significant, however, than the substantially larger number of jobs created for the same level of investment, is the impact that it has on gender inequalities – which remain a significant issue for the WA workforce (as discussed in Section 7.2 below).

Of the jobs created directly by the 2 per cent GDP investment in construction, the researchers estimate that only 11 per cent would be taken by women, with a 0.1 per cent rise in employment rate of women. In comparison, 79 per cent of the jobs directly created in the care industry would be taken up by women, increasing the employment rate by 3.7 per cent. That level of investment in the care industry still sees the employment rate of men increase of 1 per cent, while in construction it is 0.9. When the total employment effects are considered, 33 per cent of the jobs created by the investment in construction are taken by women, with a 1.7 percentage point increase in the employment rate, as to 66 per cent in the care investment scenario with a 5.3 percentage point increase in the employment rate.

---

[41] Fair Work Commission (2018) *Statistical report – Annual Wage Review 2017-18*

[42] Gilchrist, D. J. and P. A. Knight, (2017) *WA's Not-for-profit Sector 2017: The First Report on charities and Other Not-for-profits in WA*. A Report for the Western Australian Council for Social Service. Perth, Australia, p. 29

[43] J De Henau, S Himmelweit, Z Łapniewska and D Perrons (2016) *Investing in the Care Economy: A gender analysis of employment stimulus in seven OECD countries*, International Trade Union Confederation

Further, a 2 per cent investment in construction is estimated to increase the existing gender employment gap by 1.8 percentage points, while that investment in care industries reduces the gender employment gap by 2.6 percentage points.

The focus on the economic and employment outcomes of investment in the care economy alone does not factor in the wider reaching and longer-term impacts of the improved quality of life, mobility and productivity of the recipients of care. It is worth noting that analysis indicates that the health and social services sector is currently one of the fastest growing sectors of our economy and one where future demand projections (particularly in aged care and disability services) suggest ongoing growth.

An increase of $50 per week to the minimum wage will make a measurable and significant positive contribution to the improved living standards for employees in the community services sector, while also having a stimulatory effect on the state of the Western Australian economy.

7.2 Women

A 2017 research report from the Melbourne Institute of Applied Economic and Social Research found that female employees are significantly more likely than men to be paid an award wage, at a rate of 18.5 per cent compared with 12.4 per cent.[44]

Probability of being award reliant		
	Men	Women
All employees	12.4%	18.5%
By highest educational attainment		
Postgraduate qualification	3.6%	6.6%
Bachelor degree	6.0%	9.4%
Diploma	10.2%	16.2%
Trade certificate III or IV	13.2%	27.2%
High school completion	14.7%	22.2%
Less than high school completion	26.5%	32.3%
By Experience		
None	23.0%	19.9%
Up to 5 years	17.3%	25.0%
5 to 10 years	13.8%	19.2%
10 to 20 years	11.2%	19.7%
20 to 30 years	11.6%	15.6%
More than 30 years	11.9%	17.3%
Number of observations	18,547	18,489

Source: Melbourne Institute of Applied Economic & Social Research

Western Australia continues to have the highest gender wage gap in the country, at 22.5 per cent compared to 15.3 per cent nationally.

As stated in a 2017 report by the Workplace Gender Equality Agency and Bankwest Curtin Economics Centre:

[44] B Broadway, R Wilkins (2017) 'Probing the Effects of the Australian System of Minimum Wages on the Gender Wage Gap', *Melbourne Institute Working Paper No. 31/17*, Melbourne Institute of Applied Economic & Social Research

> At a macroeconomic level, gender pay gaps can depress economic growth and productivity. At an individual level, it slows down the rate of wealth accumulation by women relative to men. The ramifications reverberate across the life course, with women bearing greater exposure to poverty and disadvantage at every age. Within the context of an ageing population in which women are disproportionately represented, gender pay gaps and gender wealth gaps not only pose significant risks for the economic wellbeing of Australian women, they also have important implications for social equity and fiscal sustainability.[45]

The International Labour Organisation has found that "given the over-representation of women in low-paying jobs, minimum wages can…make a significant contribution towards lower gender pay gaps."[46]

In Australia, minimum wage increases from 1995 to 2005 were estimated to reduce the gender pay gap by 1.2 percentage points.[47]

A 2015 study into the impacts of minimum wages in Indonesia found that, in aggregate, minimum wage increases are associated with reductions in gender pay gaps, but not with changes in relative employment prospects by gender. The researchers stated:

> that at the lower end of the average earnings distribution, minimum wages are associated both with the largest increase in average wages and with the starkest reduction in gender pay gaps, suggesting minimum wage increases and wage compression go hand-in-hand. [48]

Increases to the minimum wage alone will not fix the gender wage gap, but it is an important component in reducing that gap as well as ensuring that their living costs can be met. **As such, WACOSS suggest that a $50 per week increase to the level of the state minimum wage would be an appropriate measure to address the needs of low-paid women in Western Australia.**

7.3 Young people

While WACOSS recognises that percentage rates of the minimum wage for juniors are set out in s13 of the Minimum Conditions of Employment Act 1993, it is our position that the continued provisions for "junior rates" are an anachronism. We believe that the key determinant of the wage of someone under the age of 21 should be competence, rather than age.

As we have noted in previous submission, a 2014 study of youth labour markets found that there was no evident correlation between youth unemployment rates and minimum wage rises in Australia.[49]

---

[45] Workplace Gender Equality Agency, Bankwest Curtin Economics Centre (2017) Gender Equity Insights 2017: Inside Australia's Gender Pay Gap

[46] International Labour Organisation (2018) "Effects on gender pay-gaps", *Minimum Wage Policy Guide*, http://www.ilo.org/global/topics/wages/minimum-wages/monitoring/WCMS_473657/lang--en/index.htm

[47] S Austen, T Jefferson, A Preston, R Seymour (2008) *Gender Pay Differentials in Low Paid Employment*, Women in Social & Economic Research, commissioned by the Australian Fair Pay Commission

[48] M Hallward-Driemeier, B Rijkers, A Waxman (2015) 'Can Minimum Wages Close the Gender Wage Gap?', *Policy Research Working Paper*, World Bank Group, p 46

[49] P Junankar (2015), 'The impact of the Global Financial Crisis on youth unemployment', *The Economic and Labour Relations Review*, vol 26, no 2

Figure 26: Male Youth Unemployment Rates and the Real Minimum Wage

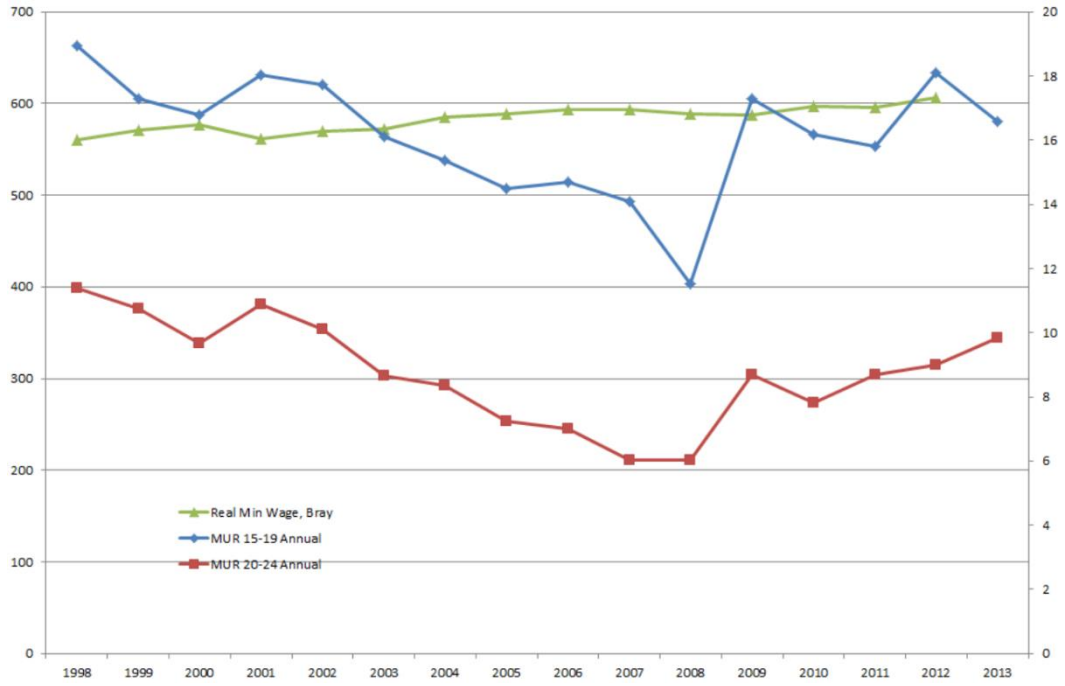
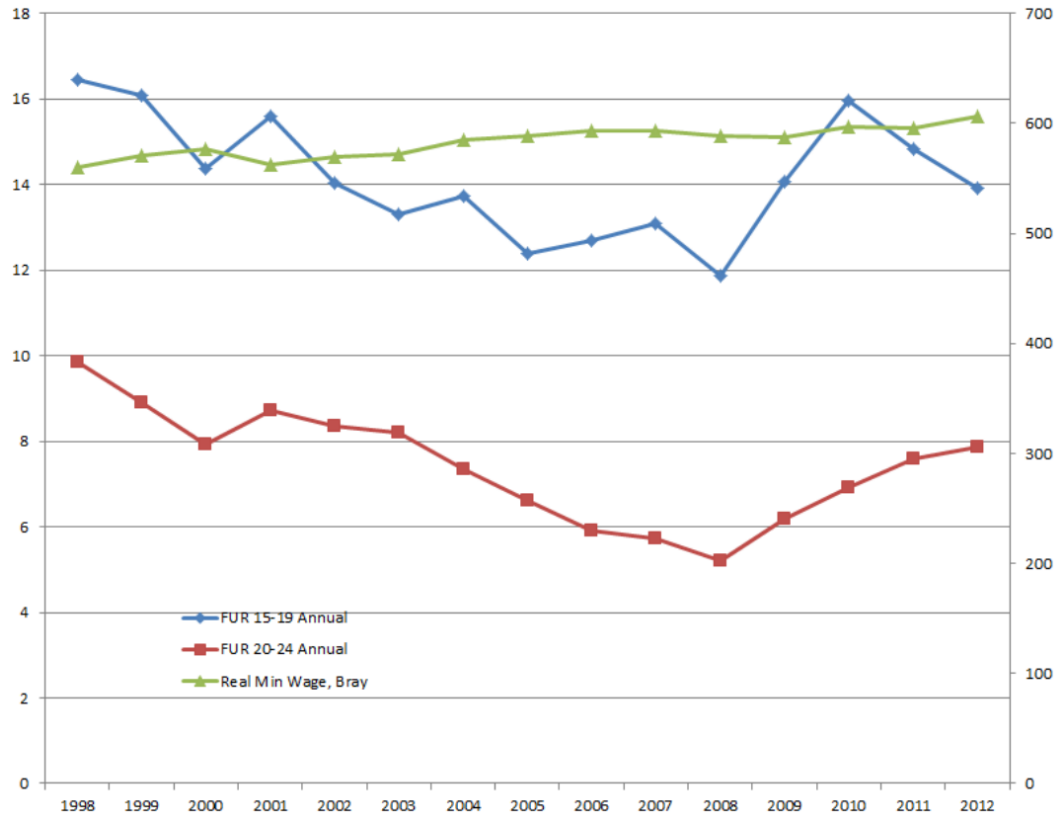


Figure 27: Female Youth Unemployment Rates and the Real Minimum Wage



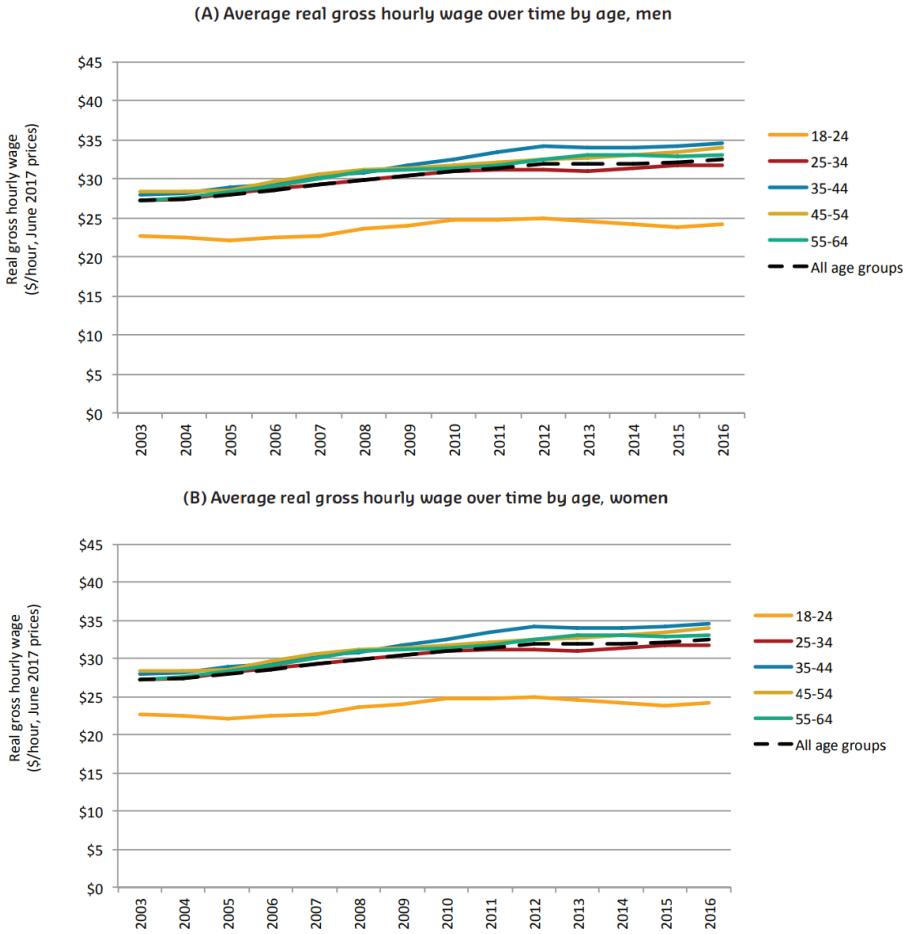
While the minimum wage has seen steady increases since 1998, unemployment rates for male and female youth had been falling continuously until the Global Financial Crisis (GFC). After the GFC, youth unemployment rates increased, while the minimum wage increased slightly – disproving the

assumption that youth unemployment rates increase with minimum wages.[50] This finding is also consistent with international observations that have found no significant impact of the minimum wage on youth employment.[51]

Once we have moved beyond the idea that the wages paid to young workers need to be lower than those of adults to address youth unemployment, the only remaining argument that youth wages should be lower is that their labour is somehow worth 'less'. This clearly runs counter to the fundamental principle of 'equal remuneration for work of equal value' that is enshrined in our industrial relations system.

What is clear is that wage growth for young workers has not maintained pace with the rest of the population. Using the wage data from the HILDA survey between 2003 and 2016, the Bankwest Curtin Economics Centre has demonstrated that there has been no progression in average pay rates for young men or women since the Global Financial Crisis, with the average real hourly pay for women having fallen by 2.6 per cent since 2010. The overall gap in pay between the youngest and oldest workers has widened by nearly 30 per cent since the start of the decade.

Figure 28: Trends in real gross hourly wage, by age and gender, 2003 to 2016



Source: Bankwest Curtin Economics Centre (2018) *The Future of Work in Australia*

[50] Ibid.

[51] D Hyslop and S Stillman, S. (2004) *Youth Minimum Wage Reform and the Labour Market*, New Zealand Treasury Working Paper 04/03, p.i; Low Pay Commission (2016) *National Minimum Wage Report* p. 119

WACOSS submits that the *full rate* of increase to the minimum wage must be applied to both junior and adult wage rates. To only provide a proportion of the recommended $50 per week increase would be unfair, as it would mean that the Commission would be failing to meet the needs of the youngest and lowest paid full-time workers.

8.0 Conclusion

It is view of WACOSS that in order to "*ensure that Western Australians have a fair system of wages and conditions; meet the needs of the low paid; provide fair wage standards in the context of living standards generally prevailing in the community; and contribute to improved living standards for employees*"[52] the State Minimum Wage needs to be raised by $50 per week for adults, junior employees, apprentices, and trainees.

As community service organisations can attest, those on the lowest incomes in Western Australia are doing it tough.

We are seeing skyrocketing rates of electricity disconnections, with WA going from having the lowest to the highest rate in just a year.

More and more people are seeking food relief, with people reporting skipping meals regularly in order to cover bills or to make sure their children have enough to eat.

They are forced to cut back their spending on recreation, health, education, communication and personal care, which not only diminishes their quality of life but increases pressures on the public system when they require assistance.

For those of us in secure dual income households or earning a decent wage, our ability to meet our living costs has been fine and may have even improved. For others, however, that is simply not the case.

WACOSS's claim of a $50 per week increase to the state minimum wage will deliver an undeniable benefit to many of the lowest-paid workers, and their families. A strong minimum wage — one which ensures people working full-time are provided with a decent living standard, well above poverty levels — benefits individuals and their families, but also delivers benefits to the Government, the community, and the Australian economy at-large.

[52] *Industrial Relations Act (1979)*