Fair Work Australia

Fair Work Act 2009

Annual Wage Review 2010-11

Post-Budget Submission

by the

Australian Catholic Council for Employment Relations

May 2011

1. This Post-Budget submission by the Australian Catholic Council for Employment Relations (ACCER) follows its submissions of March 2011 (principal submission) and April 2011 (reply submission) to the *Annual Wage Review 2010-11* conducted by Fair Work Australia (FWA). It follows the release on 10 May 2011 of the Commonwealth Government's proposed Budget for 2011-12.

LITO and Family Payments

2. The Budget's proposed changes to the Low Income Tax Offset (LITO) are not taxation cuts. Under current arrangements only 50% of the LITO is available to taxpayers in their pay packets during the course of the year, with the balance becoming available following the completion of the end of year tax return. The Government's proposal is to make a further $300 per year available over the course of the year, with a commensurate reduction in the amount that can be claimed at the end of the year. This change makes no difference to the consideration and analysis of the issues before FWA. We note that all of the calculations of net weekly wages have been on the basis of the full LITO being received in each week.

3. The decision to freeze the annual supplement components of the Family Tax Benefit provisions over the next three years will bring about *real* reductions in the value of family assistance measures. Our calculations of, for example, the value of family payments to a low income family of a couple and two children include the weekly value of the annual supplements. In this case they total $34.63 per week. By discontinuing indexation based on price changes, the likely loss over the three years will be in excess of $1.00 per week. While this is a small amount, over the three years it will be more than the tax cut given to the same workers in the last year's Budget, which was $2.88

per week. Details of this change are at *Budget Paper No. 2 - Part 2*, under the heading "Reform of family payments - pause indexation of Family Tax Benefit supplements for three years".

Appendix C of the Budget Overview

4. Appendix C of the *2011-12 Commonwealth Budget - Overview* (Budget Overview) is entitled *Helping households with the costs of living* and shows changes in disposable incomes for mostly working households. An extract from the appendix is at Attachment A, hereto. It is in a similar format to past years, with comparisons being made between the 2007-08 financial year and the 2011-12 financial year. All except three of the households shown in the table in the appendix are wage-dependent. All of the wage-dependent households are on no less than 67% of Average Weekly Ordinary Time Earnings (AWOTE). In December 2010 AWOTE was $1,272.50 per week, and 67% of it was $852.60 per week. This is a wage of up to $282.70 per week more than the National Minimum Wage (NMW). It does not show the very different position of low income working families, in regard to wage levels and the pace of change over recent years, as we have done in our principal submissions.

5. In our principal and reply submissions we have relied on pension rates as a guide, consideration and reference point for the adjustment of the NNM. Appendix C shows the improving position of a single pensioner and a pensioner couple, with projected increases in real disposable incomes over the four year period of 19.8% (for single pensioners) and 10.2% (for a pensioner couple). The high relative increases received by these two households reflect, in part, the substantial increases for age and disability pensioners that were introduced from 20 September 2009 under the Government's *Secure and Sustainable Pension Reforms*. However, it is important to show that when those initial increases of September 2009 are taken out the trajectory of pension increases in the future will be similar to the AWOTE changes.

6. The increase in the real value of pensions by their linkage to community earnings is illustrated by a comparison with the relevant figures in Appendix C of the *2010-11 Commonwealth Budget - Overview*, entitled *Helping households to make ends meet* which is extracted at Attachment B, hereto. Using the same base year (2007-08) and a three year projection, the real disposable increase were estimated to increase by 18.1% (single) and 8.1% (couple). The estimated further increases in *real* disposable incomes in this year's Budget, 1.7% and 2.0%, respectively, are significant, and, we submit, should be taken into account in this wage review.

7. We have already explained in our principal and reply submissions the reliance upon the Male Total Average Weekly Earnings (MTAWE) and other factors in the adjustment of pensions, and do not repeat them. They explain why a significant increase in the real value of pensions is projected for the next year In the year December 2009 to 2010 AWOTE increased from $1,225.30 to $1,272.50 per week, an increase of 3.9% and MTAWE increased from $1,162.70 to $1,210.90 per week, an increase of 4.1%. (The difference in the two sets of figures is largely the result of MTAWE measuring the earnings of full time and part time employees, whereas AWOTE measures full time employees.) However, not all of the total pension is adjusted by MTAWE: the pension supplement is adjusted by reference price changes. This is illustrated in Table A, which also includes MTAWE and the two measures of price changes used in the adjustment of pensions.

Table A
Changes in Age and Disability Pensions
March 2011 to March 2011

		20 March 2010 $ per week	20 March 2011 $ per week	$ increase per week	Percentage increase
Single	Base	322.10	335.45	13.35	4.1%
	Supplement	28.45	29.20	.75	2.6%
	Total	350.55	364.65	14.10	4.0%
Partnered (combined)	Base	485.60	505.70	20.10	4.1%
	Supplement	42.90	44.00	1.10	2.6%
	Total	528.50	549.70	21.20	4.0%
Consumer Price Index		169.5 (Dec. 2009)	174.0 (Dec. 2010)		2.65%
Male Total Average Weekly Earnings		1162.70 (Nov 2009)	1210.90 (Nov 2010)		4.1%
Pensioner and Beneficiary Cost of Living Index		108.8 (Dec 2009)	113.1 (Dec 2010		4.0%

8. We are unable to find any explicit forecast for AWOTE or MTAWE over the next 12 months, but the Wage Price Index (WPI) is forecast to rise by 4% over the next financial year; see Appendix H of the Budget Overview. Generally, the WPI rises at a faster rate than AWOTE or MTAWE. In the decade to December 2010 the WPI rose

44.3%, compared to 59.3% for AWOTE; see Table 3 of ACCER's principal submissions. We note that the financial and pension years do not coincide and that the pension year has started. The high Consumer Price Index (CPI) figure for the March Quarter 2011 and the forecast increase of a 3.1% increase in the CPI for the next financial year is most likely to produce a substantially larger adjustment in the supplement over the 12 months to March 2012.

9. We submit that FWA should approach this matter on the basis that AWOTE and the age and disability pensions will increase at more than they have over the past year. This appears to be the basis for the Commonwealth's projected increases in the real value of pensions. We submit that if FWA has any doubt about this aspect it should ask the Commonwealth to provide its best estimate of the increase in AWOTE and MTAWE over the next 12 months and the basis for its projection of a further increases in the real value of pensions. For these reasons, an increase of more than 4.0% in safety net rates is justified.

10. Unless this kind of increase is granted, the relative living standards of safety net workers will fall and, in particular, workers on or near the NMW and their families will continue to fall below the living standards of age and disability pensioners. As Table B illustrates, the NMW-dependent family currently has a lower relative standard of living than pension-dependent households.

Table B

Equivalised Disposable Income of Various Households Relative to Median Disposable Income

May 2011

Household	Disposable income $ per week	Modified OECD equivalence scale	Equivalised income $ per week	Disposable income as percentage of median disposable income
NMW-dependent family, second parent not seeking employment, 2 children	840.49	2.1	400.23	50.5%
Sole parent on disability pension, 2 children	675.50	1.6	422.19	53.3%
Couple, each on disability pension, 2 children	860.55	2.1	409.79	51.7%
Single person on disability pension	422.85	1	422.85	53.4%
Couple on age pension	604.66	1.5	403.11	50.9%
Single person on age pension	422.85	1	422.85	53.4%

Notes:
Median disposable income is calculated at $792.53 per week, at December 2010, which is derived from the calculation of 60% of median, $474.52, at Table 1 of ACCER Reply Submission April 2011. Calculations for changes from the December quarter 2010 to the March quarter 2011 have not been published by the Melbourne Institute.
Relevant data is taken from the *Centrelink Estimator*, the *Family Assistance Estimator*, and Table 11 of ACCER's principal submissions. The family payments are calculated on the basis that the children are in the 8 to 12 age group.

11. The comparisons between the various households are made on the basis of the modified OECD equivalence scales which are used by the Australian Bureau of Statistics and were used by the Australian Fair Pay Commission (AFPC). It should be noted that the working family would incur costs of working that are not incurred by the other households and they should also receive a reward for working. Furthermore, the wage should be sufficient to provide an incentive for workforce participation.

ACCER's alternative claim

12. ACCER's claim is explained in the principal submission. In substance, we have sought CPI increases for all award wage rates, and a further $16.60 per week (plus CPI) in the NMW. The justification for this increase in the safety net NMW "floor" is set out in the principal submission. The effect of the proposed increase would be to establish the NMW at the same level as the C13 rate. The increase would mean the abolition of award classifications below the C13 classification, including the C14 (or equivalent) classification in some awards. We submit that the award classification structure should not be a barrier to the setting of an appropriate NMW.
13. The major, and continuing, priority of ACCER is to increase the NMW at a greater rate than other increases, so that it can take into account the needs of the low paid.
14. In the event that FWA is not prepared, at least in this year, to increase the NMW to the C13 level and remove the C14 classification, ACCER asks, in the alternative, that:
    (a) the NMW be increased to no less than $6.00 per week below the C13 rate; and
    (b) award rates be increased by a combination of a money amount for low paid classifications and by percentages for higher paid classifications in a manner that will provide real wage increases for low paid classifications, in a similar way to that proposed by the Australian Council of Trade Unions (ACTU).
15. In regard to paragraph 14(a), we rely on the matters raised in the principal submissions to support this reduced scope in the ambit of the C14 (or equivalent) classification

where it does exist in an award. We foreshadow that ACCER will make a claim in next year's wage review to remove the balance of that ambit, and a further adjustment in the NMW.

16. This will enable FWA to give the parties an opportunity to make submissions in next year's wage review on the impact of this proposal on lower award classifications. A major matter for consideration would be whether, in the event of a finding that the NMW is inadequate, the lower classifications should be adjusted upwards, or be overtaken by the adjusted NMW. We submit that his matter could be raised in the context of the proposal by the ACTU for a review of relativities in 2012 (see paragraph 1.15 of its submissions of March 2011). These processes could be accommodated in the conferences proposed in ACCER's principal submissions.

17. In regard to paragraph 14(b), ACCER supports the awarding of a money increases that will provide a real wage increase to low paid classifications. The NMW and other low paid classifications should be increased by more than the CPI increase of 3.3% over the past year. As discussed earlier, relativities with pensions justify an increase in excess of 4.0%.

18. ACCER submits that the combination of a money amount and percentage increases would be an appropriate way of supporting lower paid classifications while protecting the value of higher classification wages.

19. As we have explained in our reply submission, the increase granted by FWA in 2010 was equal to 4.8% at the NMW level, with lesser increases for higher classifications; compared with published CPI increases from the decision by the AFPC in early July 2008 to FWA's decision in June 2010 totalling 5.4%. Over the 3 years between the AFPC's decision in 2008 to the operative date of this year’s decision (1 July 2011) the published CPI increases will be 8.94% (with the "all groups" index moving from 162.2 to 176.7). With a NMW of $543.90 in June 2008, the CPI increase over the three years would require a NMW of $592.50 in order to maintain the real value of the NMW. The difference between that figure and the current NMW is $22.60 per week.

20. A real increase in the NMW over the past three years requires an increase in excess of $22.60 per week. At Table 1 in our principal submission we show that the C10 rate has increased from $637.48 to $663.60 per week over the past three years, a 4.1% increase. In order to maintain the real value of the wage over the past three years it will be necessary to increase the C10 rate by 8.94% over the three years to $694.50, ie $30.90

per week more than the current rate. This is $2.90 per week more than the ACTU claim.

21. An increase of $28.00 per week, as claimed by the ACTU would result in a real wage increase for lower classifications over the past three years, but a small decline in the real wages of classifications close to the C10 classification. For classifications above the C10 rate, the proposed increase of 4.2% would also mean that they will have a real wage cut over the past three years. The small real wage increase that would be delivered to the lowest paid classifications is justified by the changes in community wage levels, as we have explained in our principal submissions. The ACTU's proposal to address relativities in the next wage review would provide an opportunity to deal with the loss in the real value of higher classification rates.

ATTACHMENT A

Extract from Appendix C of 2011-12 Commonwealth Budget - Overview

Helping households with the costs of living

Projected improvement in the real disposable incomes and the net tax thresholds of different household types from 2007-08 to 2011-12

Family type and wage as percentages of AWOTE (a)	Real disposable income (b) ($2010-11)			Real net tax threshold (c) ($2010-11)		
	2007-08	2011-12	% change	2007-08	2011-12	% change
Single person (67%)	$35,286	$38,033	7.8%	$19,993	$20,625	3.2%
Single person (100%)	$49,136	$52,378	6.6%	$19,993	$20,625	3.2%
Single person (167%)	$75,730	$80,584	6.4%	$19,993	$20,625	3.2%
Sole parent (0%)	$29,052	$30,427	4.7%	$55,252	$57,380	3.9%
Sole parent (67%)	$49,483	$52,510	6.1%	$55,252	$57,380	3.9%
Single income couple (133%) (d)	$65,451	$68,954	5.4%	$34,806	$35,822	2.9%
Single income couple (167%) (d)	$78,014	$82,868	6.2%	$34,806	$35,822	2.9%
Dual income couple (100 & 33%)	$68,444	$73,297	7.1%	$37,178	$37,625	1.2%
Dual income couple (100 & 67%)	$84,422	$90,411	7.1%	$37,303	$38,601	3.5%
Single income couple with children (100%) (e)	$59,087	$61,898	4.8%	$55,252	$57,380	3.9%
Single income couple with children (133%)	$71,177	$75,023	5.4%	$55,252	$57,380	3.9%
Single income couple with children (167%)	$83,150	$84,468	1.6%	$55,252	$57,380	3.9%
Dual income couple with children (100 & 33%) (f)	$76,706	$82,752	7.9%	$65,640	$70,287	7.1%
Dual income couple with children (100 & 67%) (g)	$93,401	$98,526	5.5%	$69,648	$77,712	11.6%
Dual income couple with children (167 & 100%) (h)	$130,430	$140,238	7.5%	$68,889	$76,547	11.1%
Single pensioner (0%) (i)	$15,706	$18,820	19.8%	$29,919	$31,719	6.0%
Pensioner couple (0 & 0%) (i)	$25,741	$28,373	10.2%	$48,794	$55,022	12.8%

- (a) AWOTE is average weekly ordinary time earnings for full-time employees.
- (b) Disposable income is the sum of private income and government cash transfers less net tax paid. Tax estimates in 2011-12 include the Temporary Flood and Cyclone Reconstruction Levy
- (c) The net tax threshold is the private income at which taxes paid exceed cash benefits received.
- (d) The spouses of couples without children are aged 40 years old or more. As such their partners may be eligible for Dependant Spouse Tax Offset.
- (e) Families with children have two, aged 3 and 8 years. Families spend enough on eligible education expenses to claim the maximum Education Tax Refund in respect of the 8 year old, where eligible.
- (f) For the calculation of real disposable incomes, younger child is in long day care, two days per week at $5.70 per hour in 2007-08 and $7.20 per hour in 2011-12; older child is not in paid care. For the calculation of net tax thresholds, the hours of care are consistent with the income of the second earner.
- (g) For the calculation of real disposable incomes, younger child is in long day care, four days per week at $5.70 per hour in 2007-08 and $7.20 per hour in 2011-12; older child is not in paid care. For the calculation of net tax thresholds, the hours of care are consistent with the income of the second earner.
- (h) For the calculation of real disposable incomes, younger child is in long day care, five days per week at $5.70 per hour in 2007-08 and $7.20 per hour in 2011-12; older child is not in paid care. For the calculation of net tax thresholds, the hours of care are consistent with the income of the second earner.
- (i) For the calculation of net tax thresholds, income is assumed to be from investments which earns a rate of return equal to the current deeming rates.

ATTACHMENT B

Extract from Appendix C of 2010-11 Commonwealth Budget - Overview

Helping households to make ends meet

Projected improvement in the real disposable incomes and the net tax thresholds of different household types from 2007-08 to 2010-11

Family type and wage as percentages of AWOTE(a)	Real disposable income(b) ($2009-10)			Real net tax threshold(c) ($2009-10)		
	2007-08	2010-11	% change	2007-08	2010-11	% change
Single person (67%)	$34,151	$36,726	7.5%	$19,409	$20,222	4.2%
Single person (100%)	$47,535	$50,432	6.1%	$19,409	$20,222	4.2%
Single person (167%)	$73,283	$77,854	6.2%	$19,409	$20,222	4.2%
Sole parent (0%)	$28,203	$29,447	4.4%	$53,639	$56,586	5.5%
Sole parent (67%)	$47,983	$50,988	6.3%	$53,639	$56,586	5.5%
Single income couple (133%)	$63,352	$66,613	5.1%	$33,789	$35,078	3.8%
Single income couple (167%)	$75,499	$80,077	6.1%	$33,789	$35,078	3.8%
Dual income couple (100 & 33%)	$66,220	$70,536	6.5%	$36,092	$36,837	2.1%
Dual income couple (100 & 67%)	$81,687	$87,158	6.7%	$36,213	$37,886	4.6%
Single income couple with children (100%)(d)	$57,244	$60,060	4.9%	$53,639	$56,586	5.5%
Single income couple with children (133%)	$68,911	$72,589	5.3%	$53,639	$56,586	5.5%
Single income couple with children (167%)	$80,606	$82,420	2.2%	$53,639	$56,586	5.5%
Dual income couple with children (100 & 33%)(e)	$74,267	$79,891	7.6%	$63,723	$69,153	8.5%
Dual income couple with children (100 & 67%)(f)	$90,547	$95,831	5.8%	$67,614	$76,762	13.5%
Dual income couple with children (167 & 100%)(g)	$126,595	$136,009	7.4%	$66,877	$75,529	12.9%
Senior single (0%)	$15,279	$18,044	18.1%	$29,505	$34,592	17.2%
Pensioner couple (0 & 0%)	$25,169	$27,205	8.1%	$47,365	$57,591	21.6%

- (a) AWOTE is average weekly ordinary time earnings for full-time employees.
- (b) Disposable income is the sum of private income and government cash transfers less net tax paid.
- (c) The net tax threshold is the private income at which taxes paid exceed cash benefits received.
- (d) Families with children have two, aged 3 and 8 years. Families spend enough on eligible education expenses to claim the maximum Education Tax Refund in respect of the 8 year old, where eligible.
- (e) Younger child is in long day care, two days per week at $5.70 per hour in 2007-08 and $6.90 per hour in 2010-11; older child is not in paid care. For the calculation of net tax thresholds, the hours of care are consistent with the income of the second earner.
- (f) Younger child is in long day care, four days per week at $5.70 per hour in 2007-08 and $6.90 per hour in 2010-11; older child is not in paid care. For the calculation of net tax thresholds, the hours of care are consistent with the income of the second earner.
- (g) Younger child is in long day care, five days per week at $5.70 per hour in 2007-08 and $6.90 per hour in 2010-11; older child is not in paid care. For the calculation of net tax thresholds, the hours of care are consistent with the income of the second earner.