

Fair Work Commission

Fair Work Act 2009

Annual Wage Review 2013-14

Post-Budget Submission and Response to Questions for final consultations

by the

Australian Catholic Council for Employment Relations

16 May 2014

Table of Contents

	Paragraph
A. Preliminary matters: recent data	1
B. 2014-15 Budget	3
C. Response to Questions for final consultations	29

A. Preliminary matters: recent data

1. **Consumer Price Index (CPI), March Quarter 2014.** The Australian Catholic Council for Employment Relations (ACCER) has claimed award increases based on cost of living increases, as measured by the published CPI increases since the handing down of the *Annual Wage Review 2012-13* decision in June 2013, and increases in recorded productivity and community-wide wages over that period. The annual national CPI figure of 2.9% has now been published. An increase of 3.9% is sought for award classifications that provide wage rates equal to or more than the tradesperson's base wage rate, which is currently \$724.50 per week. For all classifications below that rate, ACCER seeks an increase of \$28.30 per week.
2. ACCER also claims that the National Minimum Wage Order be increased by \$28.30 per week and a further amount of \$10.00 per week. For reasons which have been given in the March 2014 submission, ACCER's priority is the awarding of a further increase in the NMW. Accordingly, the claimed award increases are subsidiary to the claim for an extra \$10.00 per week in the NMW and are not intended to prejudice it. This is consistent with

the primacy of the NMW in the wage-setting process as set out in ACCER's March 2014 submission; see paragraphs 27-29 and Chapter 2B of the Attachment to the submission.

3. ***Poverty Lines, Australia, December Quarter 2013.*** This newsletter was published on 24 April 2014. Household Disposable Income (HDI) for December 2013 was estimated at \$800.83. The poverty lines in Table 8.2 of the Statistical Report, published by the Fair Work Commission, have been re-calculated and updated to December 2013. The calculations are very close to the figures calculated by ACCER in its March 2014 submission which were based on the previously published HDI of \$801.89 per week at September 2013. This is illustrated by the calculations of the poverty lines for couple parent families with two children. The Statistical Report puts the figure at \$1,041.71 and Table 27 of the Attachment to ACCER's March 2014 submission puts it at \$1,042.49. Accordingly, we have not re-calculated the figures in Tables 27-30.

B. 2014-15 Budget

4. The 2014-15 Budget presents a turning point in the provision of governmental support for families.
5. The Australian Government has proposed fundamental changes in the support of single breadwinner families by the withdrawal of Family Tax Benefit B (FTB B) from families with school age children and by limiting it to couple parent families where the youngest child is under six. If enacted, this and associated proposals will have a substantial impact on the future setting of minimum wages.
6. The relevance of the changes can be seen in a claim made by the Australian Government in its March 2014 submission to the current wage review:

“The transfer system in particular provides support for low income households with children. Given the targeted support provided through the tax-transfer system, particularly to families, *the Government contends that providing support to partners and children is not the role of the minimum wage.*” (Paragraph 49, emphasis added.)

7. The Government's submission referred to minimum wages being a “blunt instrument” or “relatively inefficient” in addressing the needs of the low paid, with the clear intent of showing that the tax-transfer system had provided more efficient and “targeted support” for the families. It was regarded as good policy.

8. The Government claimed that the tax-transfer system provided by the Commonwealth was sufficient to meet the needs of partners and children and that their needs could be disregarded in the setting of safety net wage rates. In substance, it was being argued that wages could be set on the basis of the needs of the single person. The factual basis is wrong, as ACCER demonstrated at paragraphs 11 to 27 of its Reply and Response to Questions on Notice of April 2014. The error does not detract from the value, as the Government saw it, of using the tax-transfer system to provide for the needs of the families of workers.
9. In contrast to the Government's erroneous claims in March 2014 that transfers provide for the support of partners and families, the Treasurer, Mr Hockey said in his Budget speech:

" Unlike pensions, which are an income replacement payment, family payments are an income supplement to *help with some of the costs of raising a family*." (Emphasis added.)
10. The Treasurer was acknowledging, quite properly, that family payments provide help with *some* of the costs of raising a family. In such a situation the wages system has to provide support for workers with family responsibilities.
11. The Treasurer's statement is important because it lays to rest any claim that wages should be set by reference to the needs of the single person.
12. The Treasurer then went on to announce proposed changes in family payments that would further reduce the contribution that the Commonwealth makes to the support of families. The details of the proposals are in *Budget 2014-15 Social Services*, which is available at: http://www.budget.gov.au/2014-15/content/glossy/welfare/download/Social_Services.pdf (the booklet)
13. These proposed changes are in addition to the abolition of the Schoolkids Bonus, which was first proposed by the then Opposition prior to the last election. The Government intends to abolish the Schoolkids Bonus from the start of 2015. By contrast, the Budget's proposed changes to FTB B were not foreshadowed. The proposed changes to Family Tax Benefits are at pages 15-19 of the booklet.
14. By way of introduction to the impact of these changes, we refer to Table 18 of the Attachment to ACCER's March 2014 submission, which shows that currently the FTB B payment for a family with school age children is \$51.10 per week and that the FTB B annual supplement (\$354.05) is equal to \$6.79 per week (based on 52.18 weeks per year). The submission included references to the Schoolkids Bonus on the basis that one child

was in primary school and the other in secondary school. These payments, worth \$23.57 per week, are included in the family transfers row in Table 19 and in the "FTB A" column of Tables 28 to 30. The three payments totalled \$81.46 per week. (The "FTB A" and "FTB B" in Tables 28 to 30 include Clean Energy Supplements, which, the Government has said, will be retained.)

15. The booklet states:

" From 1 July 2015, families will receive FTB-B until their youngest child turns six. Existing recipients will continue to receive payments for two years.

This means that families already receiving FTB-B at this time will receive FTB-B until 30 June 2017." (Page 16)

16. The limiting of FTB B to families with children under six contrasts with the current position, where FTB B is payable until the youngest child turns 16 or until the end of the calendar year the child turns 18 if they are in full-time secondary school. At present FTB B is paid to sole parents and the "stay at home" parent in couple parent families, so that a single breadwinner couple with two children receives the same family payments as a sole parent with two children. The Budget proposes different arrangements for couple and sole parent families.
17. **Sole parent families.** From 1 July 2015, where the youngest child is under six the sole parent will be paid the FTB B at the current rate and an annual supplement of \$300, or \$5.75 per week (based on 52.18 weeks per year). The annual payment will be called the Single Income Family Supplement. Once the youngest child turns six there will be a payment of \$750 a year for each child aged between 6 and 12, providing the parent is receiving the maximum rate of Family Tax Benefit A. This would be a substantial reduction in the income of sole parents. A sole parent with two school-age children will receive \$28.75 per week, providing the children are not over 12, and a supplement equal to \$5.75 per week. These payments of \$34.50 per week will be in lieu of the current FTB B payments of \$57.89 per week. This is a cut of \$23.39 to \$52.14 per week, depending on the age of the children. Added to this is the loss of the Schoolkids Bonus, which is \$15.71 per week for a secondary student and \$7.86 per week for a primary student (with both figures based on 52.18 weeks per year).
18. The booklet sets out three scenarios, under the heading "How changes will affect families", to show the impact of the FTB changes. The scenario for the sole parent with two children shows that even with a 9.0% increase in a part time job over the three years 2012-13 to 2016-17, the sole parent's disposable income will increase by only 2.9%. This would be a

substantial cut in the real value of the disposable income of one of the most disadvantaged families in Australia. If implemented, these proposals will force more sole parents into poverty.

19. **Couple parent families.** Unsurprisingly, the position of a single income couple family with school age children, and no child under six, is not included in the scenarios in the booklet. In lieu of the current FTB B payments of \$57.89 per week, from 1 July 2015 or 1 July 2017 (if currently receiving the payment) the family will only receive \$5.75 per week under the Single Income Family Supplement. This is a loss of \$52.14 per week. (The couple family will not receive the \$750.00 per year payment for each child between the age of six and twelve that the sole parent will receive.) If we include the Schoolkids Bonus, on the basis that one child is in primary school (\$7.86 per week) and the other in secondary school (\$15.71 per week), the loss is a further \$23.57 per week; ie a total loss of \$75.71 per week
20. The poverty line calculations at Tables 27 to 28 of the Attachment to ACCER's March 2014 included the amounts that are now proposed for abolition. Even with those inclusions, single breadwinner winner couple families with two children were living in poverty in January 2014, with poverty gaps from \$23.68 to \$104.25 per week. The proposed changes would force these families into deep poverty, even though there is a full time breadwinner in each family.
21. After referring to the proposed changes in family support payments, the Treasurer said:

"Staying at home should be a parent's choice but there are limits on how much support the taxpayer can give."
22. The Treasurer was clearly referring to FTB B and to the position of single breadwinner families.
23. If the legislation is passed, the taxpayer support for the at home care of children once the youngest turns six will be limited to \$5.75 per week. This is a derisory amount that does an injustice to those parents who wish to care for and raise their children in this way and it denigrates the value of the care for children, whether in the home or elsewhere.
24. We have explained in the Attachment to the March 2014 submission why parents should have an effective choice on whether or not the second parent works; see paragraphs 286-302. They are in the best position to chose what is best for the family, but they need reasonable support when the wages from full time work are insufficient, as they often are.

The Treasurer's words suggest the acceptance of a right to chose, but the providing a pittance puts that right well beyond the reach of low paid workers and their families.

25. We stress that the support of stay at home parents has been a feature of Commonwealth tax and transfer arrangements for decades. Table 18 of the Attachment to ACCER's March 2014 submission shows that the FTB B payable to families with school age children in January 2001 was \$34.79 per week and that it is now \$51.10 per week. Over the period January 2001 to January 2014, the CPI increased by 43.4% and the payment increased by 46.9%, just a little more. The annual supplement was introduced in 2005. FTB B was part of the package of compensatory measures to accompany the commencement of the Goods and Services Tax (GST). The new family payments system replaced some pre-existing payments. In effect, the 2014-15 Budget seeks to strip away a major component of the GST compensation package. FTB B was not the product of an unsustainable decision to distribute the early proceeds of the mining boom or to advance a "white picket fence" view of family life of any particular Prime Minister or Treasurer.
26. It has to be remembered that the increase in family payments has also been seen as a means of reducing the quantum of minimum wage increases. The passage that we quoted earlier from the Australian Government's March 2014 submission illustrates this: those drafting the submission saw the economic value in taxation and transfer policies that fully supported the partners and children of workers. The Budget seeks to reverse the trend extolled by the Australian Government in its submission. If that occurs, wages will have to play a relatively greater role in the support of families.
27. The foregoing paragraphs cover matters that the FWC will have to consider in future wage reviews if the proposed changes to FTB B are enacted. If the Schoolkids Bonus is abolished, giving effect to a policy announced before the election, ACCER will rely on that change to argue in the next wage review for a higher level of wage increase than would otherwise be awarded.
28. In the current review, we submit that the statement in the Budget speech that "family payments are an income supplement to help with some of the costs of raising a family" should be relied on as further evidence to reject the Government's claim in its March 2014 submission that "providing support to partners and children is not the role of the minimum wage".

C. Response to Questions for final consultations

29. ACCER wishes to respond to several of the questions raised in regard to productivity in the Questions for final consultations

30. Questions 2.1 and 2.2 of the Questions for final consultations cover the following matters:

- The New South Wales Government has submitted that “labour productivity should not be used to guide minimum wage decisions due to its inherent volatility, and its tenuous link to actual productivity” (paragraph 116). Capital deepening is the basis of the claim of a tenuous link between labour productivity and "actual" productivity.
- Labour productivity has risen by 1.6% per annum in the decade to 2013 (according to the Australian Government), but it has been uneven, with lower increases in the more award-reliant industries. The question raised is whether the productivity to be distributed should be confined to the lower productivity growth industries.

31. Responses to questions 2.1 and 2.2. We note that these are the kind of questions that the parties might have raised and addressed in earlier wage reviews. A reason for their continued agitation was referred to in paragraph 376 of the Attachment to ACCER's March 2014 submission:

"The measurement of productivity improvements is not easy and, in one respect, may not be necessary when setting wages. The AIRC was required to take into account current "living standards generally prevailing in the Australian community" and the FWC must take into account "relative living standards". Current and improving living standards are partly the result of changing productivity levels, which means that productivity improvements will be taken into account if community incomes are used a yardstick for wage increases. As the FWC observed in its 2013 decision:

"To the extent that productivity growth is reflected in average real wages growth, it will be a relevant consideration for minimum wage fixation because of the requirement in both the modern awards and minimum wages objectives to take into account the relative living standards and needs of the low paid."
(*Annual Wage Review 2012-13*, paragraph [144], footnote omitted)"

32. It is for this reason that ACCER's claim for wage increases in addition to CPI increases is made by reference to "productivity and community-wide wage movements". ACCER's position is that increases arising from productivity and community wage movements should be distributed uniformly across the various industries and occupations covered by the NMW and the awards. This would be consistent with the operation of a fair safety net

based on needs (which is especially relevant to the setting of the NMW) and internally and externally consistent award classification wage rates based on relative skills and work values.

33. ACCER submits that it is important for the better understanding of the wage setting system for issues around productivity to be raised and considered in a forum under the auspices of the FWC. A precedent for this kind of event is the Minimum Wage Research Forum held by the Australian Fair Pay Commission in 2008.
34. Question 2.4 refers to structural changes within the economy, in particular, the changes taking place within the construction industry, and asks “how should the Panel take into account structural changes in the economy?”
35. Response to question 2.4. Where structural change occurs within an industry that affects the skills and work values of its workers there may be a basis for a review of work classifications and rates of pay. Absent that aspect, structural change does not require any special response in the setting of safety net wage rates, which should reflect the skills and work values of work performed under the award.