

Fair Work Australia

Fair Work Act 2009

Annual Wage Review 2011-12

**Submission by the
Australian Catholic Council for Employment Relations
regarding
Research proposals for the Annual Wage Review 2011-12**

1 August 2011

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A. Introduction

1. This submission by the Australian Catholic Council for Employment Relations (ACCER) is made for the purpose of proposing areas of research to be undertaken or commissioned by Fair Work Australia (FWA) in connection with the *Annual Wage Review 2011-12* (the current wage review). The submission develops matters raised in ACCER's submissions made to the *Annual Wage Review 2009-10* (the 2010 wage review) and the *Annual Wage Review 2010-11* (the 2011 wage review). Those submissions were principally made for the purpose of advancing the interests of low paid workers and their families.
2. A major part of ACCER's submissions for the 2010 and 2011 wage reviews was concerned with quantifying the needs of low paid workers and their families so that

their needs can be taken into account when setting a *fair safety net wage*. The National Minimum Wage (NMW) and other low wage rates have become poverty wages for low income working families. Safety net wages have failed to provide a true safety net.

3. The nature and purpose of a safety net is to provide an acceptable standard of living. A safety net wage should be sufficient to meet the needs of low paid workers, including those with family responsibilities. It should enable them to live in dignity. The wage safety net does not have to cover exceptional cases, but it must cover ordinary and foreseeable cases and circumstances. Having regard to the sizes of Australian families ACCER has argued that the needs should be calculated by reference to the position of families with two children. The wage has to be sufficient to cover a family of two adults and two children, where the second parent stays at home to care for the children, and to cover a sole parent with two children, where the parent will necessarily incur child care expenses. It would not be acceptable to set a wage that is sufficient for one of these families, but not for the other. Both are within the ordinary and expected scope of a safety net.
4. ACCER argued in the 2010 and 2011 wage reviews that, pending further research, the base rate for cleaners, the Cleaning Service Employee Level 1 classification in the *Cleaning Services Award 2010*, is the appropriate interim rate for the setting a fair NMW and that this rate should be achieved over time. That rate is currently \$629.50 per week, \$40.20 more than the NMW.
5. In the 2011 wage review ACCER argued that the first step in this process should be a further increase in the NMW (ie in addition to the general increases in wage rates) of up to \$16.60 per week. Despite the fact that no extra was awarded by FWA in 2011, ACCER will advance the same kind of argument in the current wage review. ACCER remains of the view that the systemic disadvantage suffered by low income working families will require informed and targeted research and transitional adjustments over successive annual reviews.

6. Quantifying the needs of low paid workers and their families is not an optional research activity in the setting of fair minimum wages. It is just as important as any other area of economic research that may relate to the setting fair minimum wages. We submit that FWA has a statutory obligation under the *Fair Work Act 2009* to *inquire* into the needs of the low paid.

7. We referred in our principal submissions to the 2011 wage review to the submission made on behalf of ACCER in the *Safety Net Review Case 2003* that, in order for the Australian Industrial Relations Commission (AIRC) to satisfy its statutory obligation to have regard to the needs of the low paid when setting wages, it needed to ensure that the rates that it set did not fall under the poverty line. In order to achieve progress on these matters the AIRC was urged to establish an inquiry into the needs of the low paid. The AIRC said:

“Our rejection of the proposals for an inquiry should not be taken as a rejection of the utility of empirically determined "benchmarks" such as the poverty line. Indeed, it seems to us that the use of such measures is relevant to an assessment of the needs of the low paid. In this context we also note that in their oral submissions ACCER argued that the Commission must ensure the minimum rates it sets (and in particular the federal minimum wage) do not fall below the poverty line. It was put that this task involved determining questions such as "*what are needs, who are the low paid, what is the poverty line, what is living in poverty and how does the federal minimum wage compare to the poverty line?*" We acknowledge the relevance of the questions posed by ACCER and would be assisted by submissions and material directed to them.” (*Safety Net Review Case 2003*, paragraph [222], italics in original.)

8. ACCER has referred to this passage on previous occasions in order to emphasise how little progress has been made on these issues since 2003. We have also made the point that FWA’s charter presents it with the capacity to direct, undertake and commission research which will provide us with the best chance of providing some answers to these questions. We submit that FWA has a duty to do the best it can in seeking out and facilitating evidence on these matters and that our research proposals are reasonably appropriate and necessary having regard to that obligation.

9. FWA, like the AIRC, would be assisted by submissions and material directed to questions such as "what are needs, who are the low paid, what is the poverty line, what is living in poverty and how does the federal minimum wage compare to the poverty line?"
10. FWA has commenced that process. In 2010 FWA commissioned its own internal research project concerning approaches to defining and measuring relative living standards and needs of low-paid employees. The scope of the research was described in the following terms:

"This project will canvass possible approaches to defining and assessing the living standards of low-paid employees. Approaches previously used to derive income benchmarks (e.g. poverty lines, budget standards) and other possible indicators of living standards (e.g. assets, consumption, financial hardship and material deprivation) will be reviewed." (Taken from FWA website.)
11. In early 2011 the Minimum Wages and Research Branch of FWA published a very helpful review of a range of issues concerning the measurement of needs, poverty levels and associated matters; *Research Report 2/2011 - Relative living standards and needs of low-paid employees: definition and measurement* (Research Report 2/2011). The report provides a basis upon which the parties can usefully address the views in that report and its implications for the future. In particular, there should be a process to elicit submissions on the design and methodology of poverty lines and budget standards research.

B. Request for an inquiry into the needs of low paid workers

12. ACCER has asked FWA to establish its own inquiry into the financial needs of low paid workers and their families and relative living standards; see ACCER submissions March 2011, paragraphs 477-80. The purpose of the inquiry would be to gather material that is relevant to the exercise of FWA's statutory obligation to have regard to (amongst others) relative living standards and the needs of the low paid when setting award wages and the NMW. The inquiry would be able to take submissions on areas of research and research methodologies, conduct or commission research, and consider the formulation of various kinds of benchmarks to better inform FWA about the financial needs of the low paid.

13. The proposed inquiry can be flexible in form and process. It would present the opportunity for the consideration of the utility of various empirically determined benchmarks and the development of those benchmarks, along the lines mentioned by the AIRC in 2003. It would build on the material in Research Report 2/2011.
14. ACCER proposes that the inquiry, or a separate process in the absence of a formal inquiry, should cover three broad areas of research activity:
 - relative poverty lines;
 - costs of living; and
 - calculations of wage and transfer incomes of low income families.
15. The process needs to be supported by procedures that will enable the participation of relevant parties in issues concerning the nature and design of the research. Importantly, it should seek to elicit from the relevant parties their views on the utility and the design of research before it is undertaken. Because of cost and efficiency considerations the parties should not be able to keep their powder dry on any reservations or criticisms of research design and methodology.

C. Relative poverty lines

16. In 2008 the Australian Fair Pay Commission (AFPC) introduced a relative poverty line into its consideration of the living standards of low paid workers and their families. Its 2008 and 2009 decisions contained information about the level of the relative poverty line for each of a number of households.
17. Relative poverty lines are set at a percentage relationship with a broader measure of community wealth, such as median or mean average disposable income, on the basis that poverty is a relative concept. They are also relevant to the setting of fair safety net wages based on relative living standards. The poverty line chosen by the AFPC for each household was 60% of the median equivalised household disposable income.
18. ACCER accepts that there will be debate about the appropriate percentage that should be used when establishing an operational relative poverty line. Whether that poverty line should be at, for example, 50%, 55% or 60% of the mean or the median requires some knowledge of the actual costs of living. Whatever the percentage chosen, it is necessary to establish the base data: the median disposable

income per head. The most recent Australian Bureau of Statistics (ABS) publication on this aspect is *Household Income and Distribution, Australia 2007-08*, cat. no. 6523.0, published in August 2009, where median and mean disposable incomes were calculated for 2007-08.

19. In the absence of annual surveys and the speedy publication of the results of those surveys it is necessary to adjust the most recent published figures. The AFPC and the FWA Minimum Wages and Research Section updated the ABS calculations by reference to changes in per capita household disposable income as measured by the Melbourne Institute of Applied Economic and Social Research in its quarterly *Poverty Lines* newsletters. The FWA material is at Table 10.1 of the *Statistical Report-Annual Wage Review 2010-11*, 31 March 2011 (the Statistical Report).
20. The equivalence scales used in Table 10.1 of the Statistical Report are the modified OECD equivalence scales. Those and other equivalence scales are discussed in Research Report 2/2011, at pages 17 to 25. One issue in this area is how child care costs can be taken into account when making comparisons between, say, working sole parents and single workers without dependents. As we explain below, this is a matter of some importance.
21. This part of the research has three aspects:
 - the establishment of a clear and transparent process for the estimation of changes in disposable incomes between surveys;
 - the identification of households for which calculations should be made; and
 - the equivalence scales to be used when calculating the household poverty lines.
22. This part of the research does not require a conclusion to be drawn about the appropriateness of any particular figure in the range of, say, 50% to 60% of median disposable income.

D. Costs of living

23. ACCER has lamented the lack of attention to the issue of how much is required for workers with family responsibilities to provide a decent living for themselves and for their families. There are, of course, no simple answers to such a question and aspects of the evidence will be contentious. In these circumstances it is especially

important to have a comprehensive and transparent process to seek out the best possible evidence and to take submissions from the parties.

Budget Standards

24. ACCER's submissions in the 2011 wage review set out our argument in support of the use of the budget standards research of the Social Policy Research Centre (SPRC); see March 2011 submission, at paragraphs 339-64. ACCER has used the SPRC's Low Cost budget as the primary reference point for wage-setting, on the basis that the standard of living of working families should be substantially higher. Over the years ACCER has argued that the SPRC material is the best evidence available about the basic living costs of low paid workers and their families. This does not mean that the material does not have shortcomings; but ACCER has argued that its shortcomings can be overcome with supplementary research.
25. One of the advantages of the budget standards approach is that it provides critics with an opportunity to provide contrary evidence on costs, or to argue that items for the various baskets of goods are inappropriate. In his witness statement to the *Safety Net Review Case 2004* (when the SPRC material was relied on by the Australian Council of Trade Unions) Professor Saunders referred to the transparency of the assumptions and judgments and argued that they provide the basis for an informed debate:

“The most important strength of the budget standards approach is that the method confronts directly the many difficult issues that have to be faced when developing any kind of adequacy standard. The method involves identifying what needs have to be met in order to maintain a given standard of living, what items will meet those needs, and at what cost. This is a complex and formidable task, but one that has to be confronted in order to put a monetary figure on a particular standard of living. The fact that this requires judgements to be made which many will dispute reflects the inherent difficulties associated with obtaining quantitative measures of the standard of living, rather than any fundamental objection to the notion of a budget standard itself.” (*Updated Budget Standard Estimates for Australian Working Families in September 2003*, page 9)
26. Research Report 2/2011 (at pages 33-9) reviews budget standards research and some of the issues associated with it. One of the issues noted in the report, which was especially noted by the AIRC in the *Safety Net Review Case 2004*, is the

limited basis of the SPRC's calculations of housing costs. As ACCER has explained in its March 2011 submissions, the problem with this aspect can be overcome by reference to the Commonwealth's own information on rents paid by families which are eligible for rental assistance.

27. The Commonwealth made submissions about Research Report 2/2011 in its March 2011 submission, which in turn were criticised by ACCER in its Reply submission of April 2011. The Commonwealth had cast doubts on the capacity of benchmarks and measures of poverty and needs. ACCER argued that the Commonwealth submissions "in regard to the measurement of the needs of the low paid show a closed mind on the use of benchmarks" (paragraph 35) and pointed out that the Commonwealth was able to make a substantial contribution to the determination of the needs of low income families and relative living standards. That material could stand on its own, but it could also assist in the resolution of issues concerning the estimation of budget standards for low income families.
28. ACCER's view that the Commonwealth can add to this process, and to the testing of aspects of the SPRC calculations in particular, is demonstrated by the Commonwealth's recently published detailed costings on the expected impact of the carbon pollution reduction scheme. In explaining the cost impact of the scheme for various kinds of households and the effect of offsetting government assistance, the Commonwealth has calculated the "average cost of living of carbon price" for those households over various income levels. Three of the households are comprised by a single person, a sole parent with two children and a single income couple with two children. The cost of living impact of the proposed carbon price varies, as a percentage of income, across households at the same income level and across income levels within each kind of household. Clearly, the differential impact is based on modelling and research that is relevant to the calculation of expenditure patterns of low income families. The Commonwealth should disclose the data and modelling it has used to calculate these cost impacts.
29. Catholic Health Australia and Catholic Social Services Australia have joined with the SPRC in seeking funding for the undertaking of further budget standards

research. One of a number of purposes of that research is to provide evidence for the setting of minimum wages. This is an expensive exercise, even with external funding, and it is highly desirable to have a process that would identify potential issues in design and methodology; and to resolve them, if possible.

30. We submit that FWA should make or facilitate arrangements for the further review of the SPRC budget standards research in order to identify and then address the proper concerns of the parties to the annual wages review. Professor Saunders should be invited to participate in this process at an appropriate stage. We do not suggest that the inquiries into the needs of low paid workers and their families should be limited to the SPRC research. All kinds of data, including that available to the Commonwealth, should be sought out.

Child Care

31. One matter in regard to the costs of living of low income working families that requires particular attention is the cost of child care. Any assessment of the needs and living costs of parents with family responsibilities, other than those where one parent stays at home to care for the children full time, has to take into account child care costs for pre-school and school-aged children. There is insufficient evidence about the costs of child care and the frequency with which it is used. Even after government assistance, child care costs can drive low income sole parent families into poverty and/or force sole parents into inadequate child care arrangements. The prospect of inadequate child care support is a barrier to increased sole parent participation in the workforce. These matters are not limited to sole parents: they also apply where both parents are engaged in paid employment. We are particularly concerned about the impact that inadequate child care has on children and the use of latch key arrangements because of inadequate wages and the inability to pay for appropriate child care.
32. ACCER set out some indicative costs of child care in its March 2011 submissions: see paragraphs 240-51. We ask that FWA undertakes or commissions research into the hourly and sessional costs of child care in order to better understand the impact

of child care costs on the financial circumstances of low paid workers, the usage of child care and the capacity of sole parents to participate in the workforce

E. Calculations of wage and transfer incomes of low income families

33. The APPC and FWA have prepared a variety of tables that estimate the disposable incomes of workers and working families, for the purpose comparing relative living standards or comparing households with a benchmark. Table 10.1 in the FWA's *Statistical Report-Annual Wage Review 2010-11* (31 March 2011) is an example of a format that compares households of different income levels (based on work classifications) with each other and with the 60% of median poverty line.
34. ACCER has supported this kind of comparison and urged FWA to continue its use in this tabular form. However, it has expressed concerns about the calculation and use of some of the payments. In particular, ACCER has argued against the inclusion of the Newstart Allowance in the calculation of the incomes of "single earner couple families"; for example see March 2011 submission at paragraph 104 and Reply submission April 2011 at paragraph 52.
35. The issue of whether or not the Newstart Allowance should be included is not transparent in Table 10.1 of the Statistical Report, or in other similar kinds of tables. The lack of transparency gives rise to errors. For example, in Table 4.2 of the *Annual Wage Review Decision - 2010-2012* the disposable income of a family of four that is dependent on the NMW is stated to be \$963.60 per week. The table, and that figure, are based on Table 8.1 of Research Report 2/2011. Table 8.1 and the discussion surrounding it do not disclose, or even suggest, that the figure includes the Newstart Allowance for the second parent; see section 8.2.1 at pages 68-69. It is only in a footnote at page 64 of the report where any reference is made to this aspect. Footnote 49 states: "Depending on the level of wages and family composition, these transfers may include Parenting Payment or Newstart Allowance for a non-working partner, Family Tax Benefits and/or Rent Assistance."

36. The effect of this is to carry through, without transparency, the inclusion of the Newstart Allowance into Table 4.2 of FWA's decision. The consequences are significant: without the Newstart Allowance the disposable income for the same family at December 2010 was \$840.49 per week (including maximum rental assistance); see ACCER submission March 2011, paragraph 395. The effect of the inclusion of the Newstart Allowance was to increase that figure by \$123.11 per week.
37. ACCER submits that the Newstart Allowance should be excluded from the calculations of disposable incomes. If it is to be included in any calculations of household disposable incomes, its inclusion should be transparent and comparable information should be prepared for families where the Newstart Allowance is not payable. Furthermore, each component of the transfer payment total should be separately identified, and source documents made available by footnote or otherwise. A notation "modelling by..." is insufficient.
38. The AFPC adopted the practice of including maximum rental assistance in the calculations of disposable incomes. ACCER has argued that it should not be included as income, but taken into account when estimating housing costs. This is an issue that should be addressed in the review of relevant transfer payments.
39. A further area of consideration in regard to transfer payments concerns the fact that family payments vary according to the ages of the children and the age of the youngest child. This causes difficulties in making comparisons between various sets of data. Most of the calculations, including the main ones used by the AFPC and the FWA research section, are based on the children being in the 8 to 12 or 6 to 12 age group. ACCER has made its calculations on this basis, and believes it is appropriate to do so. However, it is a matter that could be usefully addressed, with a view to bringing greater consistency in the presentation of data.
40. To provide guidance from year to year the relevant data should be current and consistent. This has not occurred in the past because the surveys upon which estimates are made are not been conducted annually. There is also a necessary lag

between the collection of data and the publication of that data. The difficulties are illustrated in the AFPC's calculations.

F. Miscellaneous

41. ACCER also proposes that the inquiry, or some other process, deals with what it has called "systemic issues" in safety net wage-setting. It has proposed that FWA establish an inquiry or other process to consult with interested parties on systemic issues such as: the process whereby minimum wages may be adjusted so that workers do not live in poverty; the interaction between any future adjustment to needs-based wages and award classification structures and wages; the desirability and impact of current award relativities; the relationship between community wage levels and safety net wage rates; increasing wages by the use of percentages *and* money increases; adjusting wages by the use of percentages that take into account prices, productivity and community wage movements; and the impact on wage-setting of the adjustment provisions of the new pension safety net arrangements. This would be a more interactive process on these issues than is available under recent arrangements.
42. This process would also provide the opportunity for FWA to consult with parties on the formulation of a set of principles dealing with the way in which FWA will consider and make decisions. They would perform a similar function to that provided by the AIRC's *Statement of Principles*.
43. ACCER also submits that as well as commissioning research on economic questions, it is important for FWA to commission research on the social impacts of current and potential wage outcomes. In particular, this research should address the situation of couple parent families and sole parent families who are dependent on low paid work. We again propose that this research be done in consultation with the Social Inclusion Board.