



**Treasurer
Minister for
Industrial Relations**

NSW IR No: 13DOC0087

Justice Iain Ross
President
Fair Work Commission
Level 4
11 Exhibition St
MELBOURNE VIC 3000

Dear Judge

RE: Annual Wage Review 2013 – NSW Government Submission

The New South Wales Government urges the Fair Work Commission's Minimum Wage Panel to take a cautious approach to its 2012-2013 Annual Wage Review.

In accordance with the minimum wages objective set out at s284 of the *Fair Work Act 2009*, the attached submission focuses on:

- the current application of the Annual Wage Review to employers and employees in New South Wales;
- the performance and competitiveness of the national economy, with particular reference to New South Wales; and
- the promotion of social inclusion through increased workforce participation.

The Government is implementing measures necessary to restore fiscal sustainability, while stimulating the New South Wales economy through investment in critical infrastructure, as well as inviting interstate and international investment in our State.

These measures are starting to take effect and this turn-around in the State economy must not be put at risk by immoderate or unaffordable pay increases.

Yours sincerely

MIKE BAIRD MP

FAIR WORK COMMISSION

ANNUAL WAGE REVIEW 2012-2013

SUBMISSION OF THE NSW GOVERNMENT

FWC ANNUAL WAGE REVIEW 2012-2013

SUBMISSION OF THE NSW GOVERNMENT

1. Introduction

The New South Wales Government urges the Fair Work Commission's Minimum Wage Panel to take a cautious approach to its 2012-2013 Annual Wage Review.

The Government is taking the tough measures necessary to get the State budget under control, while stimulating the NSW economy through investment in critical infrastructure, as well as inviting interstate and international investment in our State. This is already resulting in positive outcomes, including the creation of almost 100,000 jobs, and improved levels of business confidence (particularly among small to medium businesses).

While current economic forecasts point to some improvement of economic conditions in 2013-2014, continuing uncertainty as to global economic conditions may mitigate this longer term outlook. Further, while employment levels and job creation figures are encouraging, it is important to support further job creation, suggesting that now is not the time to diminish incentives to the employment of entry-level employees.

In accordance with the minimum wages objective set out at s284 of the *Fair Work Act 2009*, this submission particularly focuses on:

- the current application of the Annual Wage Review to employers and employees in New South Wales;
- the performance and competitiveness of the national economy, with particular reference to New South Wales; and
- the promotion of social inclusion through increased workforce participation.

2. Application of the Annual Wage Review

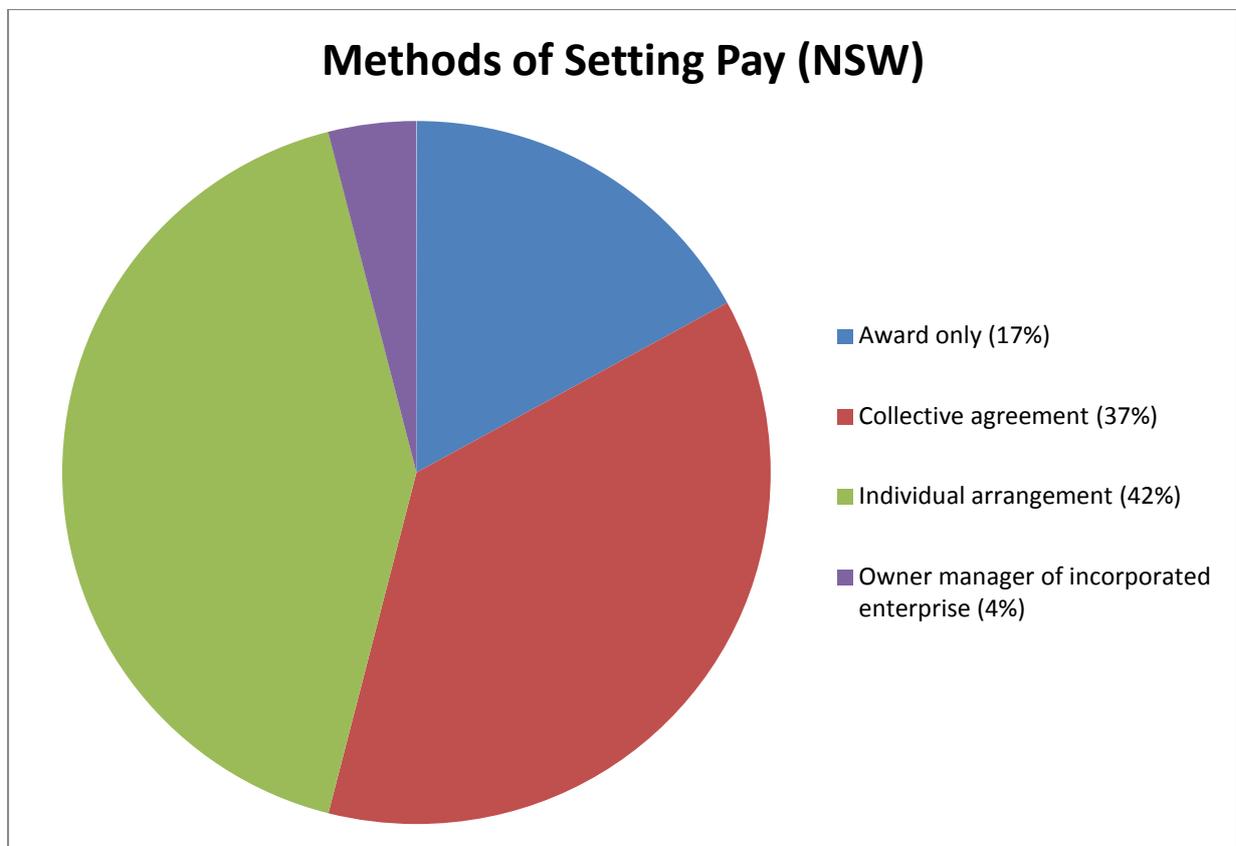
To assist in quantifying the impact of any minimum wage increases it is essential to understand which employees in NSW will derive a direct benefit from the decision handed down by the Commission at its 2013 Wage Review. The ABS survey of Employee Earnings and Hours, 2012¹ has been used to identify these employees. Accordingly the following data is presented to assist the Commission in its deliberations.

¹ ABS, Employee Earnings and Hours, May 2012 Cat. No.6306.0

According to ABS data it is estimated approximately 3.63 million employees in NSW are situated within the national industrial relations system². Of these employees, approximately 17 per cent of all NSW employees are award-reliant. Such employees will be directly affected by the Commission’s Wage Review if it chooses to increase minimum rates of pay in modern awards and the national minimum wage.

Table 1 below analyses the different methods of setting pay for employees in NSW.

Table 1 – Methods of Setting Pay NSW

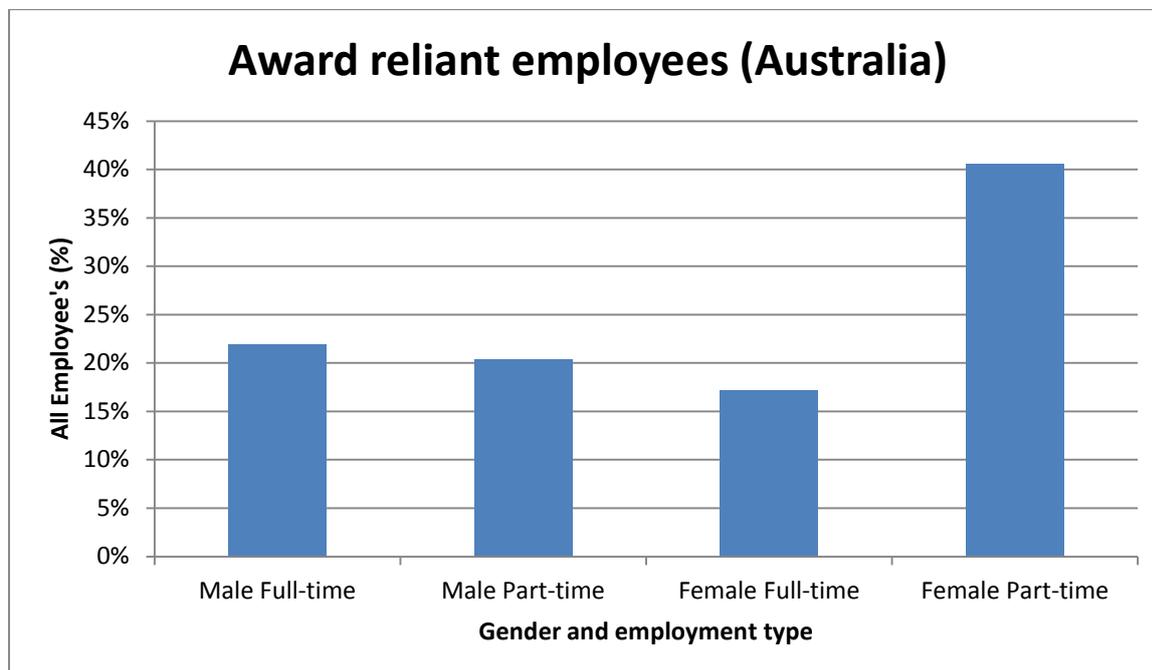


ABS, Employee Earnings and Hours, May 2012 Cat. No.6306.0

Table 2 below demonstrates the breakdown of employees who are award reliant by gender and employment status across Australia.

² ABS, Labour Force Status, Jan 2013 Cat. NO.6202.0

Table 2 – Award Reliant Employees Australia



ABS, Employee Earnings and Hours, May 2012 Cat. No.6306.0

Female employees comprise a high proportion of the total number of award-reliant employees, representing close to 58 per cent. Of note is the number of part-time female employees, representing over 40 per cent of the total number of award-reliant employees who will benefit from an increase to minimum wage rates contained within modern awards.³

Male employees represent over 42 per cent of the total number, while part-time male employees make up just over 20 per cent of the total number of award-reliant employees.⁴

New South Wales is the state with the highest numbers of award reliant employees and the fourth highest on a proportionate basis.⁵

3. Economic Performance

The NSW economic outlook is for growth returning to trend, underpinned by:

- solid trading partner growth and an anticipated modest recovery in global activity;

³ ABS, Employee Earnings and Hours, May 2012, Cat.No.6306.0

⁴ Ibid

⁵ Ibid

- strong growth in mining investment and non-rural commodity exports;
- strong demand from resource-intensive states for NSW services and manufactured goods;
- lower interest rates;
- solid fundamentals for the housing construction sector including a high level of new housing completions, a low rental vacancy rate and firm growth in household incomes and the population;
- a strong outlook for farm production and exports; and
- public investment picking up over the next two years, consistent with the Government's capital spending profile.

Key data includes the following:

- NSW domestic demand (SFD) growth is expected to improve over 2012-13 and return to trend in 2013-14 as the investment (and employment intensive) phase of the mining boom peaks and activity gradually improves in the non-mining sectors (particularly dwelling investment and non-mining related business investment).
- Growth will also be supported by firm household income and consumption growth and public demand contributing to growth.
- Employment growth has been revised down over the next two years in line with weaker activity but is still expected to strengthen in 2013-14 as domestic demand increases and conditions gradually improve in the non-mining sectors.
- The unemployment rate has remained fairly steady at around 5 per cent over 2012, a low level by historical standards. Nevertheless, it is expected to rise slightly to 5.5 per cent over the next two years (unchanged from Budget-time forecasts).
- The NSW unemployment rate is currently 0.2 percentage points below the national average.
- Through the year growth in Sydney's Consumer Price Index (CPI) picked up in the second half of 2012, boosted by the introduction of the carbon tax and means testing of the private health insurance rebate. However, through the year growth to the December quarter 2012 remains moderate at 2.5 per cent.
- Underlying price pressures remain moderate, with national underlying inflation increasing to 2.4 per cent in September before easing to 2.3 per cent in December.
- Growth in underlying inflation has been within the Reserve Bank of Australia's target rate band since the June quarter 2010, and in the lower half of its target band for the whole of 2012.
- In year average terms, growth in the Sydney CPI is expected to be moderate at around 2.5 per cent over the next two years, unchanged from Budget time.

- Underlying wage inflation pressures have been less than expected. Wages growth is expected to remain contained at around 3.5 per cent, reflecting the outlook for the labour market and moderate inflation.
- In particular, it is noted that wages growth in the NSW public sector has moderated sharply.

4. NSW Government action

The New South Wales Government inherited an unsustainable fiscal outlook, including debt levels of \$55 billion, an infrastructure backlog of at least \$30 billion and a forecast loss of the State's AAA credit rating over the forward estimates if action was not taken. The Government has implemented a range of strategies to restore fiscal sustainability, including the NSW public sector wages policy, changes to Police Death and Disability provisions, workers compensation reforms, and placing a labour expense cap on agency budgets.

Controlling public sector wages has been a critical part of restoring fiscal sustainability. Public sector wages growth moderated sharply at the end of 2012, falling from 3.7 per cent in September, to 3.1 per cent in December. This reflects the success of the wages policy, which limits public sector pay increases to 2.5 per cent in the absence of concrete employee-related cost savings.

The wages policy has now been in place for almost two years, striking an appropriate balance, with the result that public sector employees are receiving wage rises in line with inflation, while the pressure on the budget is being alleviated.

In February 2013, the Public Service Association accepted a wage increase of 2.5 per cent for 80,000 Crown employees under the policy. In total, around 250,000 public sector employees across NSW have accepted a wage increase of 2.5 per cent under the policy. Over 9,000 employees have received wage increases above 2.5 per cent, because cost offsets have been identified and delivered.

The New South Wales Government is focused on creating job opportunities, restoring confidence and rebuilding the NSW economy. The State's ambitious infrastructure program will support thousands of jobs and will provide a further boost to the economy.

Businesses are also being encouraged to take advantage of the NSW Jobs Action Plan, which is providing payroll tax rebates for 100,000 new jobs for the State. 98,600 new jobs have been created in this State since March 2011.

5. Superannuation

The Annual Wage Review 2011-2012 decision invited parties to make submissions to this year's review regarding increases to Superannuation Guarantee (SG) contributions, commencing from 1 July 2013. The Commonwealth Government has indicated that the new SG contributions are being phased in from 2013-14 'to allow employers to take the increased SG contributions into account when negotiating future wage settlements'.

The New South Wales Government notes that in last year's proceedings, employer associations expressed concerns about the additional cost imposed of the increase in SG contributions, and submits that whatever the Commission awards must take account of the SG increases.

6. Promoting Increased Workforce Participation and Productivity

While the New South Wales Government is committed to a range of strategies to restore the strength of the State economy, national conditions have a direct effect on the State's performance. The decision of the Fair Work Commission on whether and by how much to increase the National Minimum Wage and award rates of pay is obviously a crucial component of these national mechanisms.

It is the view of the New South Wales Government that the maintenance of a safety net of fair minimum wages must reflect general economic conditions and be balanced against access to employment opportunities and the needs of business. When determining any changes to minimum wage rates, the Commission should take into account Australia's soft labour market conditions and prospects and the current international and domestic business environment.

It is integral that a sustainable safety net of minimum wages is one that supports enterprise bargaining at NSW workplaces. In particular, the Commission should set minimum wages at a level that maintain incentives for enterprise bargaining that rewards flexible and productive work practices.

The New South Wales Government submits that any unnecessary increase to minimum wages that does not reflect productivity improvements may limit the capacity of businesses to absorb such increases and consequently have a deleterious impact on employment growth

Minimum wage jobs provide employment for low skilled workers, function as an important stepping-stone for new entrants into the labour market, particularly young people, and provide opportunities to develop employability skills that facilitate progression to higher paying jobs. The New South Wales Government submits that

the best way of promoting increased workforce participation is to ensure that the level at which minimum wages are set is appropriately balanced with the continuing provision of employment opportunities.

Minimum wages must not act as an impediment to affected workers securing and maintaining employment, or regaining employment once out of the workforce. In order to limit potential negative impacts, the Commission should exercise caution when determining minimum wage adjustments in its Annual Wage Review 2012-2013 decision.

7. Conclusion

The New South Wales Government submits that, having regard to the matters which the Commission's Minimum Wage Panel is required to consider pursuant to s284 of the *Fair Work Act 2009*, the Panel should adopt a cautious approach to adjusting the minimum wage in this Annual Review.

In the New South Wales Government's submission, any increase to the National Minimum Wage and award rates of pay determined by the Panel must be based on solid economic grounds, and ensure that incentives to employ entry-level employees is not diminished, and employment opportunities for NSW employees and the unemployed are not reduced.