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QUEENSLAND

QUEENSLAND INDUSTRIAL RELATIONS COMMISSION

Industrial Relations Act 2016
s.458

(No. B/2017/16)

**APPLICATION FOR A DECLARATION OF GENERAL RULING AND
STATEMENT OF POLICY**

STATE WAGE CASE 2017

**SUBMISSION OF THE QUEENSLAND GOVERNMENT
JULY 2017**

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Introduction

The applicants' claims

1. The Queensland Council of Unions (QCU) has filed an application in the Queensland Industrial Relations Commission (the Commission) seeking:
 - a general ruling to provide a \$43.60 per week increase to all State award rates of pay equivalent to or below the *Parents and Citizens Associations Award – State 2016* Level 3 classification and the Queensland Minimum Wage (QMW);
 - a general ruling to provide a 5.7% increase to all State award rates of pay above the *Parents and Citizens Associations Award – State 2016* Level 3 Classification.
 - a 5.7% adjustment to allowances which relate to work conditions which have not changed and to service increments; and
 - an operative date of 1 September 2017.

2. The Australian Workers' Union (AWU) has filed an application in the Commission seeking:
 - a general ruling to provide a \$43.60 per week increase to all State award rates of pay equivalent to or below the *Parents and Citizens Associations Award – State 2016* Level 3 classification and the Queensland Minimum Wage (QMW);
 - a general ruling to provide a 5.7% increase to all State award rates of pay above the *Parents and Citizens Associations Award – State 2016* Level 3 Classification.
 - a 5.7% adjustment to allowances which relate to work conditions which have not changed and to service increments; and
 - an operative date of 1 September 2017.

Queensland Government position

3. In response to these applications the Queensland Government supports:
 - an increase in the minimum and award wages to maintain real wages and living standards and provide reward for measured productivity gains. The Queensland Government asserts that an increase of 3.3% would satisfy this principle and would be responsible in the current economic environment;
 - an increase to work allowances that have not changed and service increments consistent with the percentage awarded to the wage increase of the Level 3 Classification rate in the *Parents and Citizens Associations Award – State 2016*; and
 - an operative date of 1 September 2017 for any increase awarded.

The Queensland Government support for this position applies solely in the context of considering an appropriate safety net increase for the discrete group of low-paid and award reliant-workers who continue to rely on the state wage case each year for an annual wage increase. It is the Queensland Government's submission that it is appropriate that these workers receive the same 3.3% increase that was awarded to their fellow award reliant Queensland workers who are covered by the federal jurisdiction.

Context and Background

Legislative parameters

The Industrial Relations Act 2016

4. Section 458(1) of the *Industrial Relations Act 2016* (the Act) provides that the full bench may make general rulings about—
 - (a) *an industrial matter for employees bound by an industrial instrument if multiple inquiries into the same matter are likely; or*
 - (b) *a Queensland minimum wage for all employees.*
5. Section 458(2) requires the full bench of the Commission ensure a general ruling about a QMW for all employees is made at least once each calendar year.
6. Section 22 of the Act entitles employees, other than those excluded under section 459 (2), to a wage that is not less than the QMW.
7. The QMW is currently \$704.50. This is \$31.80 above the 2016 national minimum wage (NMW) of \$672.70. As a result of the 2016-2017 FWC AWR, the NMW was increased to become \$694.90 from 1 July 2017. This is \$9.60 less than the current (2016) QMW.
8. The Guaranteed Minimum Wages in other States are
 - a. New South Wales (NSW): equal to national minimum wage (effective 19 September 2016) – currently \$694.90;
 - b. South Australia (SA): \$684.90 per week (effective 1 July 2016);
 - c. Tasmania (TAS): \$656.90 per week (effective 1 July 2015);
 - d. Western Australia (WA): \$708.90 per week. (effective 1 July 2017).
9. The objects of the Act require the Commission to balance economic and social factors in making determinations on matters such as state wage cases. In economic terms, there is a need to ensure wage outcomes are consistent with strong economic performance. In social terms, there is a need to ensure that people are covered by fair and reasonable wages that allow them to participate in society and that those who do not benefit from bargaining are not left behind.
10. These economic and social objectives are encapsulated in the main purpose of the Act and how it is primarily achieved; which is to provide a framework for industrial relations that supports economic prosperity and social justice. In making its determination in this matter, the Queensland Government submits the following sub sections are particularly relevant:

3 Main purpose of Act

The main purpose of this Act is to provide for a framework for cooperative industrial relations that-

- (a) *is fair and balanced; and*
- (b) *supports the delivery of high quality services, economic prosperity and social justice for Queenslanders*

4 How main purpose is primarily achieved

The main purpose of this Act is to be achieved primarily by-

- (a) supporting a productive, competitive and inclusive economy, with strong economic growth, high employment, employment security, improved living standards and low inflation; and*
- (g) ensuring wages and employment conditions provide fair standards in relation to living standards prevailing in the community; and*
- (j) ensuring equal remuneration for work of equal or comparable value.*

11. The Act has a strong focus on the importance of ensuring fair wages and conditions with reference to prevailing community standards. In addition to the reference in the main purpose of the Act and how it is to be achieved, sections 142 and 447(1) place obligations on the Commission to ensure fairness in wages.
12. In addition to the references to fair standards in the main purpose provisions of the Act. Sections 141 and 447(1) place obligations on the Commission to ensure fairness in wages.

Number of employees affected by the State Wage Case

13. All states except WA have referred their private sector industrial relations jurisdictions to the Commonwealth from 1 January 2010. As a result, Queensland-based private sector employees have moved to the national workplace relations system and are covered by the *Fair Work Act 2009* (FW Act).
14. The Australian Bureau of Statistics (ABS) estimates there were approximately 351,200 employees subject to the Queensland Industrial Relations jurisdiction in 2016 (Cat. No. 6248 Employment and Earnings, Public Sector, 2015/16). These are employees within the state and local government sectors, and those employees whose employers have been declared not to be the national system employers.
15. The Local Government Association of Queensland (LGAQ) has previously indicated approximately 2,000 local government employees are award reliant and some local government enterprise agreement adjustments are directly linked to SWC increases.
16. It is estimated that approximately 3,000 employees of Parents and Citizen's Associations are also award reliant.
17. State public sector employees are subject to a number of enterprise bargaining agreements or determinations that offer wages and allowances above the QMW and the relevant award. There are few award reliant employees in the State public sector. Consequently the direct impact of the State Wage Case to reduce poverty and assist those who do not benefit from bargaining so not to be left behind is limited.
18. The Queensland Government wages policy for public sector enterprise bargaining is 2.5%. This wages policy has been reflected in the Queensland Government's recently published budget forward estimates. It is estimated that up to 12,300 state public sector employees (including part-time and casual employees) would be directly

impacted should the increase awarded through the SWC be at or above 3.1%. In this case the rates of pay in enterprise agreements or determinations for employees at classifications A01-A03 and equivalent will fall below those prescribed in the parent award.

Other 2017 Wage Decisions

Federal Wage Review

19. The Fair Work Commission 2016-17 AWR decision was released on 6 June 2017, and ordered that the National Minimum Wage (NMW) and minimum wages in modern awards increase by 3.3%. The decision, which follows the 2015-16 AWR increase of 2.4%, lifts the federal weekly minimum wage to \$694.90 from \$672.70.
20. The Queensland Government Submission to the 2016-17 AWR called for “an increase that rewards productivity gains and improves living standards and the value of the NMW and award wages in real terms’ and it “anticipated that an increase of not less than 2.5% for NMW and award rates of pay would be reasonable”.
21. The Australian Council of Trade Unions (ACTU) sought an increase of \$45.00 per week to the NMW and award rates up to the C10 Tradesperson rate and 5.7% for rates above that.
22. The Australian Chamber of and Industry (ACCI) recommended an increase of 1.2% (\$8.10 per week) to the NMW and a 1.2% increase to modern award wages. The Australian Industry Group (Ai Group recommended an increase of 1.5% to the NMW and Award wage rates and the National Farmers Federation (NFF) argued for a 1% increase to the NMW and modern award rates of pay.
23. In its submission, the Federal Government argued “the Panel should take a cautious approach, taking into account the uncertain economic outlook and the need to boost employment and job creation particularly for young people and low skilled”.

Western Australia

24. On 14 June 2017, the WA Industrial Relations Commission ordered an increase to the state minimum wage by \$16 per week (taking it to \$708.90). The same increase applies to award rates below the C10 classification level, and 2.3% to C10 and above.
25. The WA Government had supported a flat \$19.20 per week adjustment (which it noted would increase the State minimum wage by approximately 2.8 per cent to \$712.10 per week) in its submission to its SWC.
26. The decision of the WA Industrial Relations Commission was based on WA’s subdued economy, low levels of business profitability and confidence, weak labour market and the need to keep low paid workers in employment.

Other State Wage Cases

27. No other State Wage Cases have yet been determined for 2017.

28. The NSW Industrial Relations Commission initiates the SWC and adopts the FWC's decision. In 2011, legislation was passed to ensure that unless savings can be shown to justify an increase, public servants will not receive higher than 2.5%. Where a federal increase is higher than 2.5%, it may result in two wage rates – one for businesses that are still in the state system which will more than likely follow the AWR, and a 2.5% increase for Public Sector Awards.

Current Economic Conditions and Outlook

29. The Australian economy continues to transition from the investment phase to the production phase of the mining boom. After slowing in 2016-17 as a result of weather related factors in early 2016-17 and more recently Tropical Cyclone Debbie, the Australian Treasury expect economic growth to increase over the forecast period as the drag from the decline in mining investment dissipates and the economy transitions to broader-based growth, supported by historically low interest rates and a lower Australian dollar. Wage growth and consumer price inflation remain weak. With spare capacity in the labour market expected to persist, growth in household incomes and domestic prices are forecast by Australian Treasury to remain subdued.
30. The global economy continues to pose risks for the domestic outlook, with uncertainty across both advanced and emerging market economies. In China, the main challenge will be around progressing structural reforms needed to sustain growth while managing the risks associated with debt accumulation and excess capacity in parts of the economy. While the United States economy is performing well, there are uncertainties regarding the impact of monetary policy normalisation. Risks also remain in Europe, including banking sector fragility in the euro area and uncertainty around the impact of Brexit.

National outlook

31. Australia's real GDP is forecast to grow by 1¼% in 2016-17, and then strengthen to 2¾% in 2017-18, as the detraction from mining investment eases. Exports are forecast to grow by 5½% in 2016-17 and 5% in 2017-18 supported by non-rural commodity exports — liquefied natural gas (LNG) and iron ore in particular — and services exports. Services export volumes, including tourism and education services, continue to be supported by a lower exchange rate and rising demand from Asia.
32. Business investment fell by 10.3% in 2015-16 as resource investment continued to decline. The outlook is for a further decline in business investment, with a fall of 6% forecast for 2016-17 followed by a flat result in 2017-18. In line with the transition in the Australian economy, non-mining business investment is expected to rise moderately over coming years.
33. Dwelling investment grew strongly in 2015-16, rising by 10.6%, driven by investment in medium to high density dwellings. As the current pipeline of unit construction is completed, which is evident in the data on building approvals and commencements, dwelling investment is forecast to grow by 4½% in 2016-17 before easing to 1½% in 2017-18.

34. Household consumption grew by 2.9% in 2015-16 and is expected to continue to grow at a moderate rate, supported by further employment growth and low interest rates. Household consumption is forecast to grow at 2½% in 2016-17 and 2¾% 2017-18. The household saving rate is expected to continue to decline over the forecast period as consumption growth outpaces the modest growth in disposable incomes.
35. Employment growth is expected to be supported by continued economic growth and subdued wage growth. Employment is forecast to grow at a slightly more moderate pace of 1% through the year to the June quarter 2017 and by 1½% through the year to the June quarter 2018. The unemployment rate is forecast to remain around 5¾% in the June quarters of 2017 and 2018.
36. Headline CPI inflation is expected to grow by 2% through the year to the June quarter 2017, and through the year to the June quarter 2018. Consumer price inflation is low reflecting subdued wage growth and other factors such as heightened competition in the retail sector, slower growth in rents as well as a subdued inflationary environment globally.

The Queensland Economy¹

37. Economic growth in Queensland is forecast to improve to 2¾% in both 2016-17 and 2017-18. This is despite the impact of Severe Tropical Cyclone Debbie, which is estimated to have detracted \$2 billion (or ¾ percentage point) from economic activity across these two years. These economic growth forecasts reflect a strong contribution from exports, as the State's large liquefied natural gas (LNG) projects have continued to ramp-up their production. Additionally, the drag on economic growth from business investment (following the unprecedented resource investment boom) is forecast to lessen in the short term, before business investment again contributes to growth from 2018-19 onwards. Despite the anticipated pick-up in economic growth over the forecast period, domestic activity in Queensland remains subdued by historical standards.
38. Since the Global Financial Crisis (GFC), growth in household consumption has remained below its historical average. Growth in household consumption spending is expected remain below average, tempered by slow wages and employment growth, as well as subdued population growth.
39. Business investment continues to adjust following the completion of LNG construction in late 2016, and is expected to decline in 2016-17. While there have been positive signs in relation to investment projects in the tourism and education sectors due to the lower A\$ and growing demand from Asia, these are not expected to fully offset the decline in resources investment. As a result, and in line with the national outlook, business investment is expected to be broadly unchanged in 2017-18 before returning to moderate growth across the remainder of the forecast period.
40. Sustained low mortgage rates and moderate house price growth has supported dwelling investment in Queensland in recent years (particularly in medium-to-high density housing in inner Brisbane), with this component recording three consecutive

¹ Budget Paper No. 2 – Budget Strategy and Outlook, Queensland Treasury, 13 June 2017

years of strong growth. However, with dwelling approvals falling in 2016-17 and the value of work-yet-to-be-done in decline, dwelling investment will reach a cyclical peak in 2016-17, before easing in the following two financial years.

41. In the trade sector, the extent of growth in Queensland coal exports in coming years is likely to be constrained by the anticipated moderation in steel production in China and the increasing role of renewable energy in some markets. Metal exports are forecast to continue to fall in 2016-17, due to production cuts and closures of major mines.
42. Conversely, Queensland's overseas tourism exports are expected to grow at a healthy pace in coming years. This reflects increased outbound tourism from China, the rising popularity of working holidays in the wider Asian tourism market and the competitive exchange rate. The lower A\$ is a positive for the State economy, particularly for exporters in tourism and education.
43. As with economic growth more generally, developments in the resources sector are influencing Queensland labour market conditions. Higher commodity prices in 2016-17 (in particular, higher coal prices) have improved mine viability and labour market conditions in some regional Queensland areas, particularly in the coal mining centres of Mackay and Fitzroy. Much of the labour market impact of recent metal mine closures and cutbacks by processors has been felt in Queensland - Outback (where the majority of ore is mined) and Townsville (where the processing and exporting takes place). Both of these regions are experiencing elevated unemployment rates. Queensland construction employment has increased as residential construction work (which is somewhat more labour intensive) has offset the decline in resource-related construction employment.
44. Following employment growth of 0.7% (seasonally adjusted) through the year to June quarter 2016, measured employment has been quite volatile during the current financial year, easing early in the year, but picking up since late 2016. Reflecting this recent momentum, employment in Queensland is forecast to be 1¼% higher over the year to June quarter 2017.
45. Consistent with the improvement in overall domestic activity, employment growth is expected to strengthen from 1% in the year to June quarter 2018 to 1½% in the year to June quarter 2019. After a period of stabilisation, these trends are also expected to see the unemployment rate decline to 6% by this time.
46. Consistent with modest labour market conditions, growth in consumer prices and wages are expected to remain low. Wages are expected to grow at 2% in 2016-17 and 2¼% in 2017-18 while inflation is forecast to be 1¾% in 2016-17 and 2% in 2017-18, implying modest real wage growth. The Consumer Price Index is 2.1% p.a. for the year to the March quarter 2017.

Economic Risks

47. Key risks for the international outlook arise from increased protectionist sentiment in many countries and heightened geopolitical tensions. These are occurring against the backdrop of a changing policy mix under the new US administration and the

economic realignment associated with the UK exit from the European Union. If protectionism intensifies, growth in world trade and output could be slower than expected, flowing through to lower than expected growth in Queensland's commodity export volumes and prices.

48. There is also a risk that the anticipated recovery in the US could stall. As the US economy has strengthened, the US Federal Reserve Board has increased interest rates by 25 basis points in both December 2016 and March 2017, with two more rate rises expected in 2017. While US fiscal policy is expected to become more expansionary, the risk remains that growth could be slower than expected.
49. In China, Queensland's most important export market, continued reliance on policy stimulus through rapid expansion of credit, together with slow progress in addressing debt in state owned enterprises and local governments, as well as financial fragility of the banking sector, raises the risk of disruptive adjustment.
50. Domestically, a key source of uncertainty is the pace and timing of the recovery in non-resources business investment, now that the large resources investment projects are completed.
51. Additionally, while there is a substantial amount of dwelling construction work still in the pipeline, the large fall in building approvals together with a possible emergence of oversupply of units and apartments in parts of South East Queensland, could see an earlier and faster decline in dwelling investment than currently forecast.
52. Within the agricultural sector, almost 70% of Queensland is currently drought declared and if these conditions remain more protracted than assumed, this could impact on the production and export of key agricultural commodities.

Minimum wages and employment

53. The main purpose of the Act is to provide a fair and balanced framework for cooperative industrial relations that supports economic prosperity and social justice for Queenslanders.
54. This is primarily achieved by supporting a productive, competitive and inclusive economy with strong economic growth, and high employment, and by ensuring wages and employment conditions are fair in relation to the living standards prevailing in the community.
55. The maintenance of the real value of wages and the living standards of the low paid should be a threshold benchmark for minimum and award wage increases. In addition, it is reasonable that that workers share in the benefits of measurable improvements in productivity, particularly those workers who do not participate or have the benefit of enterprise level bargaining
56. Particular concerns have been expressed around the impact of increasing minimum wages on the employment of low-skilled workers. Arguments around the empirical evidence regarding the impact of wage adjustments on employment have been a constant feature of national and state wage cases. The economic evidence suggests that moderate increases in real wages, in the absence of offsetting productivity

improvements, would have a small negative impact on employment. This impact may be less than expected because there are productivity benefits – such as through employer efforts to increase workers’ productivity to justify the wages paid, incentive effects on employees, and through the broader effects of a fairer system on social and economic cohesion in society as a whole.

57. The impact of safety net-type adjustments to the minimum wage is less contentious. In previous wage case decisions, the Commission has noted that a general assessment of employment data has not disclosed any basis to suggest that past safety net adjustments have had any significant adverse employment effects.
58. In the 2015-16 AWR, at paragraph 14 of the statement on its decision to award a 2.4% increase, the FWC noted “the additional evidence presented to this Review, especially from the work of the Productivity Commission, is consistent with our conclusion that the employment impacts of an increase in the NMW and award minimum rates of the size we have determined, and in the economic circumstances that we face, will not have a measurable impact on employment”.
59. Further, in the 2016-17 AWR, at paragraph 9 of the statement on its decision to award a 3.3% increase, the FWC noted “Our consideration of the international research on the impact of increases in minimum wages on employment, particularly the UK research, has fortified our view that modest and regular wage increases do not result in disemployment effects. That research also suggests that the Panel’s past assessment of what constitutes a ‘modest’ increase may have been overly cautious, in terms of its assessed disemployment effects.”
60. Increases in the QMW and award wages serve an important social function by directly targeting and benefiting those employees who are not able to negotiate wage increases with their employer through enterprise bargaining. This helps to ensure that those workers with little or no bargaining power are not left behind.

Queensland Government Position

61. The Queensland Government recognises that there are cost of living pressures and that these are most acute for the lowest paid workers. The Queensland Government accepts that if the low paid are forced to live in poverty then their needs are not being met. Further, those in full-time employment should reasonably expect a standard of living that exceeds poverty levels.
62. Maintenance of living standards and the real value of wages should therefore be a threshold benchmark in considering the SWC increase, its effect on the QMW and award wages and on those rates set through enterprise bargaining.
63. A measure of this benchmark is the CPI which is currently at 2.1% pa for the year to the March quarter 2017 and is forecast to grow at 2% over 2016-17.
64. In addition to the maintenance of the real value of wages it is also reasonable that workers share in the benefits of measurable improvements in productivity.

65. While State estimates of labour productivity growth are not easily available, the most recent national accounts show labour productivity in Australia improved by 1.3% in the year to the March quarter.
66. While supporting a position to maintain the value of real wages and afford those unable to bargain an opportunity to share in labour productivity gains, the Queensland Government notes that domestic economic activity in Queensland remains subdued by historical standards. However, economic growth is forecast to improve to 2¾% in both 2016-17 and 2017-18, despite the impact of Severe Tropical Cyclone Debbie and the drag on economic growth from business investment following the resource investment boom. The unemployment rate has been relatively stable, and inflation subdued with little risk from inflationary pressures. A strong contribution from exports along with positive signs in investment in the tourism and education sectors suggests a gradual improvement in activity over the forecast period.
67. The Queensland Government acknowledges the recent outcome of the Federal AWR and the rationale for awarding a 3.3% increase. The Queensland government agrees with the conclusion that “modest and regular wage increases do not result in disemployment effects” and that the FWC’s “past assessment of what constitutes a ‘modest’ increase may have been overly cautious”.
68. The Queensland Government also notes recent warnings from Reserve Bank of Australia (RBA) that wages growth has been too low and that this, combined with household indebtedness, poses a risk to economic activity.
69. In this context, it is submitted that an increase of 3.3% is appropriate for maintaining living standards along with providing an increase for measured productivity gains for those who have been unable to benefit from enterprise bargaining.

Operative Date

70. The Queensland Government supports an operative date for any increases emanating from the decision in these matters of 1 September 2017.

Adjustments to allowances

71. The Queensland Government supports the percentage increase to allowances which relate to work conditions which have not changed and to service increments consistent with the amount awarded to the wage increase of the Level 3 rate in the Parents and Citizens Associations Award – State 2016.

Conclusion

72. This submission has examined the background and context for the 2017 State Wage Case, and the key factors that are relevant to the determination of the full bench in this matter, consistent with the provisions of the Act.
73. The domestic economic outlook is showing signs of improvement sufficient that an increase to maintain living standards and recognise productivity gains for award

reliant and low paid workers is appropriate. An increase of 3.3% will meet these criteria.

74. The Queensland Government recommends the following:
- A. an increase in the minimum and award wages to maintain real wages and living standards and provide reward for measured productivity gains. The Queensland Government asserts that an increase of 3.3% would satisfy this principle and would be responsible in the current economic environment; and
 - B. an increase to work allowances that have not changed and service increments consistent with the percentage awarded to the wage increase of the Level 3 rate in the *Parents and Citizens Associations Award – State 2016*; and
 - C. an operative date of 1 September 2017 for any increase awarded.