



# 2023 State Wage Case

Chamber of Commerce and Industry WA  
Submission in Reply

22 May 2023

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Industrial Relations Act 1979

In the Western Australian Industrial Relations Commission

Application No. 1 of 2023

**2023 STATE WAGE ORDER**

On the Commission's own motion

**SUBMISSION IN REPLY**

BY

**THE CHAMBER OF COMMERCE AND INDUSTRY OF WESTERN AUSTRALIA**

Filed on behalf of the Chamber of Commerce and Industry of Western Australia by:

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Date of Filing: 22 May 2023

## Introduction

1. The Chamber of Commerce and Industry of Western Australia (CCIWA) provides the following submission in reply to the 2023 State Wage Case (SWC) submissions filed by:
  - 1.1. The Minister for Industrial Relations (Minister);
  - 1.2. UnionsWA;
  - 1.3. The Western Australian Council on Social Services (Inc) (WACOSS); and
  - 1.4. The Western Australian Local Government Association (WALGA).
2. In summary, CCIWA submits that:
  - 2.1. The Minister's submission recognises that an uncertain economic climate with elevated cost pressures is having significant impacts on both business and households.
  - 2.2. The 7 per cent increase proposed by UnionsWA and WACOSS would place further undue stress on businesses, particularly small and medium enterprises (SMEs), that are already facing soaring costs and risk their viability, as well as having a significant impact on inflation.
  - 2.3. The submissions made by UnionsWA and WACOSS are largely focused on cost-of-living pressures and do not appropriately take into consideration the measures announced by the State and Federal Governments in their respective Budgets to address these; and
  - 2.4. The Commission should consider the targeted cost-of-living measures announced by the State and Federal Governments to support low-income households when making its determination.

## Minister's submission

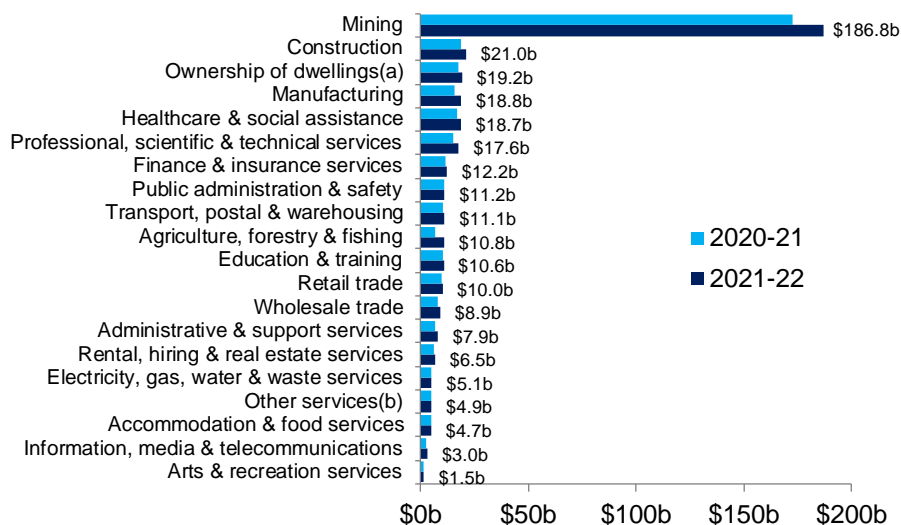
3. The Minister's submission has not nominated a specific quantum increase, instead encouraging the Commission in Court (Commission) to award an increase that will fairly reward workers but remains affordable for employers. This is in recognition of the challenging conditions that have created cost-of-living and cash flow pressures for both households and businesses.
4. CCIWA's submission makes a similar recommendation in that ample consideration should be given to how the economic climate has also adversely impacted businesses, not just households.

- The Minister also recommends alignment between the Annual Wage Review and the SMW. We suggest there are economic differences present in WA and suggest the Commission should not be heavily influenced by this outcome.

### WA Economy

- The Minister has recognised that while WA's economy remained strong in the past year, growth is expected to moderate in the coming years as discretionary spending contracts significantly, due to rising interest rates and elevated prices.
- In considering the strength of the WA economy, which saw its highest growth rate since 2013-14, it is important to identify what is driving this outcome. As identified in CCIWA's submission, the mining sector accounts for over 46 per cent of our Gross State Product (GSP), meaning that the WA economy continues to be overly reliant on a single industry sector for our economic prosperity.
- The mining sector dwarfs the contribution made by other industry sectors, as shown in Figure 1.

Figure 1 – Industry contribution to Gross State Product – WA<sup>1</sup>



- This continues to pose a significant risk to the ongoing performance of the WA economy and means that we are especially vulnerable to shocks in the price or demand for our resource commodities. The WA Budget continues to recognise this risk, with an additional \$463 million committed to diversify the WA economy, on top of the \$1.3 billion already invested in the 2022/23 State Budget.<sup>2</sup>

<sup>1</sup> WA Government (2023) [Western Australia Economic Profile – April 2023](#)

<sup>2</sup> WA Government (2023) [Western Australia State Budget 2023-24](#)

10. It is also clear that economic growth and prosperity is not shared equally across all industry sectors as evidenced by the construction industry crisis, which has seen 211 construction companies in WA become insolvent in the past two years despite the industry being the second highest contributor to the State's economy.<sup>3</sup>
11. The other big driver of WA's economic growth has been strong household consumption, which is expected to ease significantly and increase at its slowest pace since the pandemic (especially with the full impact of higher interest rates yet to be realised).

### *Inflation*

12. The Minister stated that elevated inflation is an impost on both businesses and households.<sup>4</sup> Just as individuals are facing cost-of-living pressures, the cost of doing business is also mounting as businesses face higher operating costs, which is posing significant financial challenges, especially for SMEs.
13. As noted in our submission, this has prompted the Reserve Bank of Australia (RBA) to raise interest rates 11 times in the past year to try and return inflation to target levels. The Minister's submission referenced the higher interest rates and highlighted the added pressure that this places on the whole economy.<sup>5</sup>
14. High inflation has had an adverse impact on both businesses and households and caution should be exercised when determining the SWC outcome. A significant increase in SMW and Award rates of pay could result in inflation remaining at elevated levels for an extended period, diminishing living standards for everyone within our community.
15. We agree with the Minister's assessment that the elevated levels of inflation over the past year has been challenging for low-income earners; a difficulty that has been recognised by the State and Federal Governments, who have since announced a range of measures to address cost-of-living pressures.
16. The Commission should strongly consider the targeted support measures taken by the State and Federal Governments to address the cost-of-living pressures identified in paragraphs 68 to 74 of CCIWA's submission. As these are targeted measures, they will directly benefit low-income households, and will improve their ability to meet their needs, without adding further inflationary pressure through a substantial rise in the SWC.

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<sup>3</sup> ASIC (2023) *Australian insolvency statistics – April 2023*

<sup>4</sup> Minister's submission, para 40.

<sup>5</sup> Ibid, para 41.

### *Trends in wages*

17. The Minister has identified the Wage Price Index (WPI) as the preferred measure of wages growth.<sup>6</sup>
18. CCIWA does not regard the WPI as the best proxy of wages growth as per the reasons highlighted in paragraphs 52 and 53 of our submission, chiefly because it does not account for promotions to higher-paid positions (either within or across businesses) as well as the use of allowances and bonuses, including sign-on that increase overall remuneration.
19. As a result, WPI underestimates the real growth in wages, with data collected from CCIWA's Business Confidence Survey indicating that WA businesses have, on average, increased base wages by around 11 per cent as part of an annual wage setting process. This is significantly higher than WA's most recent WPI of 3.6 per cent.

### *Equal remuneration*

20. The Minister has identified that based on average weekly ordinary time earnings, the gender pay gap increased by 0.9 percentage points in the 12 months to November 2022.<sup>7</sup>
21. The submission also notes that WA has the highest gender pay gap compared to the other states. However, the Minister has acknowledged that adjustments to the minimum wage can only have a limited impact on the gap.
22. WA's high gender pay gap remains an ongoing matter of concern for the business community. The reasons for the gap are complex and require a considered approach to identify and address the multiple causes. This is not achievable through these proceedings.
23. We therefore suggest there be no change to the Commission's previously held view that there are limits to the extent that increases in the SMW can have a material impact on the gender pay gap.

### *Operating conditions for Western Australian businesses*

24. The Minister recognises that the gross operating surplus (GOS) and gross mixed income (GMI) data provided at Table 4 of the submission reveals little about the profitability or otherwise of businesses.<sup>8</sup>

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<sup>6</sup> Ibid, para 51.

<sup>7</sup> Ibid, para 57.

<sup>8</sup> Ibid, para 62.

25. What it does demonstrate however is the dominance of the mining industry in WA's economy and how the performance of this industry skews the perception that businesses are experiencing profit booms.
26. While the data shows that GOS plus GMI across all industries increased by 8.8 per cent in 2021-22, the mining industry was overly represented in that figure.<sup>9</sup>
27. A more suitable proxy of business profitability in WA is CCIWA's Profitability Index. For the March quarter 2023, this showed businesses experienced a 20 per cent drop in profitability as compared to the high reached in the December quarter 2020, which highlights the struggles hampering WA businesses. Further to that, around 57 per cent of WA businesses expect profit margins to further decline.
28. CCIWA's submission identifies the difficult operating conditions that WA businesses are contending with, which is further reflected in the increase in insolvencies across the State over the last 12 months.
29. As noted in paragraph 45 of our submission, the declining profitability and increasing number of insolvencies signify that many WA businesses, particularly SMEs, have very limited capacity to bear more costs.
30. Any increase to the SMW and Award rates of pay should therefore be at a level that does not further risk business' viability.

### *Fairness*

31. The Minister notes there are some groups of employees covered by the state industrial relations system (state system) that are currently award free, including workers in occupations that would traditionally be considered award type work.
32. The WA Government has addressed this concern through the *Industrial Relations Legislation Amendment Bill 2021 (WA)*, which provides the Commission with the capacity to, of its own accord, expand the scope of private sector awards to cover parts of an industry not previously covered.
33. This measure is intended to address the concern raised by the Minister.

### UnionsWA's submission

34. UnionsWA is seeking a substantial and unsustainable 7 per cent increase to the SMW and award rates of pay. This equates to a \$57.39 per week increase to the SMW through to a \$75.45 per week increase to the C5 classification under the *Metal Trades General Award*.<sup>10</sup>

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<sup>9</sup> Ibid, Table 4.

<sup>10</sup> UnionsWA submission, para 2.1.



### *State of the economy*

35. UnionsWA contends that a substantial increase to the minimum rate of pay is required given the performance of the WA economy, WPI, and headline CPI for Perth.
36. For the reasons specified in our submission, this position fails to take into consideration the following:
  - 36.1. The composition of the economy, and that much of the State's strong economic performance has been largely underpinned by the strength of the mining sector. This does not reflect the difficult operating conditions that businesses, especially small and family businesses, in non-mining industries are facing, which is reflected in declining profitability and growing number of insolvencies.
  - 36.2. Perth has recorded the lowest quarterly and annual CPI growth in March 2023, with every other major Australian city recording annual CPI growth above 6 per cent.
  - 36.3. The measures taken by the WA and Federal Governments to address cost-of-living pressures; and
  - 36.4. The limitations in measuring wage growth using WPI in the current environment, which has been identified by the RBA, WA Treasury and CCIWA.

### *Needs of the low paid*

37. In considering the needs of the low paid, UnionsWA focuses on the most recent Perth CPI of 5.8 per cent, which they also acknowledge was no longer the largest annual CPI increase in Australia. Rather, as stated in paragraph 35.2, Perth's CPI was the lowest in the nation and the lowest increase recorded since December 2021.
38. UnionsWA also refers to lower paid workers usually being 'price takers' where non-tradable goods such as rent are concerned, highlighting the issue of rental affordability for workers across Western Australia.<sup>11</sup>
39. We note that the State and Federal budgets have incorporated provisions aimed at providing a targeted response to cost-of-living pressures, which are outlined in paragraphs 68 to 74 of CCIWA's submission. Some of these measures have been targeted to directly address housing and rental concern, including the largest increase to the Commonwealth Rent Assistance in over 30 years, housing affordability schemes, and social housing investment that will see an additional 1,000 social homes entered – or soon-to-be – into the WA market.

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<sup>11</sup> Ibid, para 4.5.

40. UnionsWA state that an increase in minimum and award rates would assist small and medium businesses that are competing with larger businesses in remaining competitive in the labour market.<sup>12</sup> CCIWA notes that this position disregards the option for small and medium businesses to provide wage increases above minimum and award rates at their discretion. Any decision to do this will be based on their consideration of their financial capacity and an assessment of whether it will help attract and retain staff.
41. Data from CCIWA's recent Business Confidence Survey has shown that increasing base wages has been one of the primary mechanisms used by businesses to attract and retain workers, with WA employers already raising base wages by 11 per cent, on average, as we have noted in our submission and paragraph 19 of this reply submission. For some award reliant sectors like retail and hospitality, the increase in base wages has been even higher.
42. As CCIWA's March quarter Consumer Confidence WA Survey found, it is also important to emphasise that WA households are also managing the cost pressures by cutting down on key discretionary items like eating out at restaurants and cafés and are increasingly open to sharing rental costs.

#### *Operation of the WA labour market*

43. UnionsWA refers to US based theory on the monopsony labour market as impacting upon wages growth in WA. UnionsWA provides no evidence to support the application of this theory within the Australian or WA labour market.
44. It is well recognised that caution should be had in applying US labour market theories to the Australian context, particularly where there is an absence of evidence to demonstrate their transferability.
45. Moreover, part of the theory suggests that employers will accept staff vacancies rather than raise wages to attract workers to fill those vacancies. Again, data from CCIWA's Business Confidence Survey show that businesses have significantly boosted base wages in a bid to secure labour, and supported employees to move up to higher-paid positions by upskilling. In addition, the high number of job vacancies stem from a tight labour market driven by low levels of population growth that resulted from restrictions in domestic and international travel during the COVID-19 pandemic.

#### *Equal remuneration*

46. CCIWA refers to the comments made in paragraphs 20 to 23 of this reply submission.

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<sup>12</sup> Ibid, para 4.9.

### *Percentage increase*

47. UnionsWA are seeking a percentage increase on the basis that it helps to preserve award relativities.
48. However, a flat dollar increase would deliver a proportionately greater benefit to low paid workers while at the same time helping to minimise any potential inflationary pressures or business insolvencies that may occur with any large percentage increase.

### WACOSS' submission

49. As in previous years, WACOSS' claim of a 7 per cent increase to the SMW and award rates of pay reflects the quantum sought by UnionsWA.
50. In justifying its position WACOSS is primarily focused on the challenges facing low-income households in terms of housing and electricity costs as well as food insecurity and financial security.
51. Issues such as housing affordability, poverty, and food security are complex issues which cannot be resolved exclusively through the SWC decision.
52. A further challenge in considering the relevance of WACOSS' submission for the purpose of the SWC proceedings is its focus on low-income households, which includes persons who are solely or largely reliant on government support. This limits the transferability of this information for the purpose of considering the adequacy of the SMW and award rates of pay generally.

### *Housing*

53. WACOSS raises concern about the impact of increases in weekly rents on low paid workers and the need for a substantial increase in the SMW and award rates to make housing more affordable.
54. However, this position fails to acknowledge that the key driver of rental affordability is a supply problem, as shown by the substantial decline in the vacancy rate.
55. An increase to the SMW will not address this issue. The Anglicare report that WACOSS refers to also suggests that housing supply is the "most prominent answer to housing affordability" and suggests that more social housing would relieve the pressure.<sup>13</sup> Government strategies to boost investment in social and affordable housing options are necessary, including incentivising investment in affordable rental properties and increased availability of skilled labour.

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<sup>13</sup> Anglicare Australia (2023) *Priced Out: An Index of Affordable Rentals for Australia's Essential Workers – April 2023*

56. As identified in paragraphs 70 to 72 of CCIWA's submission, the Federal and State Budgets have announced a range of measures to address housing supply issues and ease rental pressure, including a dedicated skilled migration visa to support the construction sector meet demand in a timely manner.
57. We further note that increased competition for rental properties has resulted in reports of prospective tenants offering to pay above advertised rent to secure a property.<sup>14</sup> A percentage increase to all award rates of pay will have the effect of providing a greater dollar increase to those employed in higher award classifications, further disadvantaging employees paid at the SMW if competing for scarce rental properties.
58. Caution is also needed when comparing average rental prices as a proportion of the SMW when determining household affordability, as this does not consider the range of household types and other sources of income, such as government payments and assistance.

### ***Utilities***

59. The impact of energy prices is a matter that is being addressed by the Federal and State Government, with all households to receive at least \$400 in electricity bill relief and up to \$826 for those with the highest needs.<sup>15</sup>
60. The State Government has also increased the Hardship Utilities Grant Limits, which will see the maximum annual grant limit increase to \$640 per household, or \$1,060 for households above the 26<sup>th</sup> parallel.<sup>16</sup>
61. These are targeted responses to support low-income earners to address concerns regarding utility hardship.

### ***Cost of living report***

62. WACOSS refers to its annual Cost of Living Report 2022 to consider the capacity of five hypothetical households to provide a basic standard of living.
63. CCIWA maintains its concerns about hypothetical examples, instead of real-world examples, and their relevance to these proceedings.

### ***Regional costs***

64. CCIWA submits that the *Location Allowance General Order* provides the most appropriate mechanism to address cost of living difference between regions.

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<sup>14</sup> Thompson, H (11 April 2022) *Perth tenants should 'go over the top' when applying to rent a home ... and also pay more*, WA Today. It should be noted that the article also identifies the use of references and personalised rental application as alternative strategies to make rental application more attractive.

<sup>15</sup> WA Government (2023) *Western Australia State Budget 2023-24*

<sup>16</sup> Ibid.

### *Emergency relief and financial counselling*

65. The information provided by WACOSS on financial counselling and emergency relief highlights the challenges faced by some households in WA.
66. WACOSS' submission refers to datasets held by the Financial Counselling Network (FCN) which shows that 26 per cent of FCN clients were in paid employment, and 'managing on a low or inadequate income' was one of the most prominent reasons why FCN clients accessed their services (16%), closely followed by private debt levels (13.7%). These results suggest that these two factors are closely related, and higher levels of private debt represents a burden for any income category. It is also unclear whether these clients are in full-time employment, or under-employed or if they are even covered by the state system and awards, which limits the relevance of these findings for these proceedings.

### *Gender pay gap*

67. CCIWA refers to the comments made in paragraphs 20 to 23 of this reply submission.
68. WACOSS also expresses concern about the impact of employees in the social and community services sector being largely reliant on award increases given that it is a highly feminised industry.
69. Increases through the SWC are not an effective mechanism to address this concern. Consequently, other mechanisms need to be considered to address this issue, including a review of the State Government's current methodology for determining funding arrangements within the sector, which was a policy recommended in CCIWA's 2023/24 Pre-Budget Submission.

## **WALGA's submission**

70. Following recent legislative changes, WA local governments and regional councils are now affected by the State Wage Order.
71. WALGA notes the constrained capacity of local governments to bear even greater costs as some are already under significant financial pressure as they continue to operate in an environment of rising costs. Consequently, local governments must weigh up any increase in costs with an increase in rates charged, or commensurate reduction in services.<sup>17</sup>
72. This is reflective of the situation of many WA businesses, particularly SMEs, who are unable to bear the burden of higher costs and will be forced to pass these costs on to the customer in the form of higher prices for products and services.

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<sup>17</sup> WALGA submission, para 32.

73. As such, the SWC outcome should seek not to disadvantage small business operators and smaller local governments with an unsustainable and substantial rise to the SWC.
74. CCIWA agrees that the impact of the superannuation increase should also be considered when setting the SMW and award wages.