



# Issues Paper

Review of Australian Pay and  
Classification Scales  
in the Australian labour market

September 2007

## Introduction

The Australian Fair Pay Commission (Commission) is conducting two reviews:

- 1) Review of Australian Pay and Classification Scales in the Australian labour market; and
- 2) Review of junior and training wages in the Australian labour market.

The Commission is seeking the views of interested stakeholders and the public to inform these reviews.

The subject of this Issues Paper is the Review of Australian Pay and Classification Scales in the Australian labour market.

The Commission's decision to seek submissions on these issues responds to the requirements of the *Workplace Relations Act 1996* (WR Act) to remove references to State or Territory boundaries from Australian Pay and Classification Scales (Pay and Classification Scales) by March 2009. In addition, the Commission also responds to the recommendations made in the Award Review Taskforce Final Report.

This Issues Paper provides guidance to those making a submission to the Commission's *Review of Australian Pay and Classification Scales in the Australian labour market*.

The questions posed in this Issues Paper canvass the roles that Pay and Classification Scales and minimum wages play in promoting the economic prosperity of the people of Australia.

## Scope of the Review

Under s. 23 of the WR Act, the Commission's objective in performing its wage-setting function is to promote the economic prosperity of the people of Australia having regard to the following matters:

- the capacity for the unemployed and low paid to obtain and remain in employment;
- employment and competitiveness across the economy;
- providing a safety net for the low paid; and
- providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.

Under the WR Act, there is no legislative requirement that the Commission rationalise Pay and Classification Scales. However, the WR Act does require the Commission to have regard to any relevant recommendations made by the Award Review Taskforce in exercising its wage-setting functions. The WR Act also requires the Commission to remove coverage rules from Pay and Classification Scales described by reference to State or Territory boundaries by March 2009, subject to the wage guarantees included in the legislation.

With these legislative parameters in mind, the Commission is seeking submissions that address broad issues relevant to the role of Pay and Classification Scales. It is not seeking submissions that refer to or canvass specific models on the rationalisation of Pay and Classification Scales.

**The Commission is keen to ensure that submissions do not replicate the work already undertaken by the Award Review Taskforce in this regard.**

The Australian Industrial Relations Commission (AIRC) has responsibility for Award rationalisation under the WR Act. The scope of this Review therefore is limited to issues specific to the role of Pay and Classification Scales. The Commission is not in a position to consider submissions which deal with Award rationalisation as a distinct issue.

## The process

The Commission's *Review of Australian Pay and Classification Scales in the Australian labour market* will be conducted in two phases.

In the first phase the Commission is seeking submissions that address the general issues raised in this Issues Paper. These submissions, together with research and consultations, will inform the Commission about the role Pay and Classification Scales perform and whether rationalisation will contribute to promoting the economic prosperity of the people of Australia.

Following phase one, if the Commission believes there may be benefits arising from the rationalisation of Pay and Classification Scales, it will then commence a second phase to seek views on specific options for rationalisation.

## Guide to making a submission

Submissions should consider the role and relevance of Pay and Classification Scales in the Australian labour market, while recognising that the Commission must take into account its legislative parameters.

The Commission is therefore seeking submissions that respond to the **key questions** identified in this Issues Paper and that are relevant to its **wage-setting function**.

### Key questions

The key questions are intended to provide a focus for, and assist in, structuring submissions. These have been identified on page 9.

### Wage-setting function

Under s. 23 of the WR Act, the Commission's objective in performing its wage-setting function is to promote the economic prosperity of the people of Australia having regard to the following matters:

- the capacity for the unemployed and low paid to obtain and remain in employment;
- employment and competitiveness across the economy;
- providing a safety net for the low paid; and
- providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees remain competitive in the labour market.

## Content of submissions

Submissions do not necessarily have to address all criteria or respond to all questions. In addition, submissions need not be lengthy. The Commission is interested in receiving a wide range of views on these issues.

Submissions may contain facts, arguments, opinions and/or recommendations. Where possible, submissions should provide evidence to support the views put forward.

## Who can make a submission?

Anyone can make a submission. The Commission encourages submissions from a wide range of individuals and organisations.

## Timetable

The timetable for the *Review of Australian Pay and Classification Scales in the Australian labour market* is:

- Issues Paper released Wednesday, 26 September 2007
- Submissions open Wednesday, 26 September 2007
- Submissions close Friday, 14 December 2007

**All submissions must include a cover sheet available from the Commission's website: [www.fairpay.gov.au](http://www.fairpay.gov.au).**

## Publication of submissions

The Commission has adopted a policy of publishing submissions.

If you do not wish to have your submission published, you may elect to have it treated as confidential, in which case you must indicate this on the cover sheet.

Non-confidential submissions will be published on the Commission's website. Relevant parts or quotes from non-confidential submissions may also be included within the Commission's published documents.

The Commission may partially or wholly exclude publication of submissions where they:

- are outside the remit of the Commission's functions, as defined by the legislation;
- are deemed to be offensive or abusive;
- are deemed to be vexatious or defamatory; or
- could identify an individual.

A submitter can, upon reasonable request, have their submission withdrawn from public view.

## **How to lodge a submission**

The Commission accepts submissions in hard copy or electronic format. Submissions may take the form of a short letter, email or a more substantial structured document.

Submissions may be lodged via the Commission's website: [www.fairpay.gov.au](http://www.fairpay.gov.au), by email: [submissions@fairpay.gov.au](mailto:submissions@fairpay.gov.au), or by post:

Australian Fair Pay Commission  
Locked Bag 35003  
Collins Street West  
Melbourne VIC 8007

## **Further information**

Further background information about the Review can be found through the following websites:

- Australian Fair Pay Commission – [www.fairpay.gov.au](http://www.fairpay.gov.au)
- Award Review Taskforce – [www.awardreviewtaskforce.gov.au](http://www.awardreviewtaskforce.gov.au)
- Australian Government Workplace Website – [www.workchoices.gov.au](http://www.workchoices.gov.au)

## **Contacts**

For general enquiries or questions regarding lodging a submission, contact the Australian Fair Pay Commission Secretariat on 1300 139 699.

For further information about this Review, please contact Joelle Leggett, Research Analyst, Workplace Relations Section, Australian Fair Pay Commission Secretariat on (03) 8621 8203.

Media enquiries can be directed to Justin Napier, Communications Manager, Corporate Communications Branch, Australian Fair Pay Commission Secretariat on (03) 8621 8206.

## Pay and Classification Scales and the economic prosperity of the people of Australia

Under the WR Act, the Commission's overarching objective in performing its wage-setting function is to promote the economic prosperity of the people of Australia. In carrying out its wage-setting function, the Commission has interpreted 'economic prosperity' broadly rather than narrowly. It recognises that many factors, including the level of minimum wages, have a bearing on the economic prosperity of the people of Australia.

### Award Review Taskforce

In July 2006, the Award Review Taskforce produced the paper *Final Report: Rationalisation of Wage and Classification Structures* (Award Review Taskforce Final Report). This report was produced at the request of the Australian Government as part of a larger project to examine and report on the rationalisation of federal awards and wage and classification structures. The terms of reference provided to the Award Review Taskforce required it to examine wage and classification structures in all pre-WorkChoices federal awards and state awards with a view to rationalising these to a simplified structure of wages and classifications.

The Award Review Taskforce Final Report made thirteen recommendations that it proposed should be addressed before any particular model for rationalisation was considered. These included several recommendations relevant to the Commission and to this review:

- that the Australian Fair Pay Commission undertake further consideration of the relevance and use of classifications to underpin the development of a rationalised classification structure;
- the Government undertake research to establish the current data relating to the safety net status of awards; and
- that the Australian Fair Pay Commission give consideration to removing Pay and Classification Scales, drawn from pre-WorkChoices awards, which clearly have no continuing application.

### Pay and Classification Scales and minimum wages

The WR Act provides that minimum wages are guaranteed by the Australian Fair Pay and Conditions Standard (Standard). The Standard, including a guarantee of a minimum wage, underpins all contracts of employment and new workplace agreements. Under the Standard, minimum wages are set by Pay and Classification Scales, the standard Federal Minimum Wage (FMW) or an applicable special FMW.<sup>1</sup>

Pay and Classification Scales determine minimum rates of pay for federally covered employees. Under the changes introduced by the *Workplace Relations Amendment (WorkChoices) Act 2005*, federally covered employees on industrial instruments such as awards had their rates of pay transferred into a 'notional' preserved Pay and Classification Scale.<sup>2</sup>

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1 The WR Act defines a junior employee as an employee under the age of 21. Section 194 of the WR Act exempts junior employees from the standard FMW. Young workers are covered by preserved Pay and Classification Scales. Preserved Pay and Classification Scales may include specified junior rates of pay below those specified for adult workers. Where a Pay and Classification Scale does not provide for junior rates of pay, young workers must be paid at least the minimum adult rate specified for the work being undertaken by that employee in the Pay and Classification Scale. Where junior employees were award-free prior to the introduction of WorkChoices, they are currently Pay and Classification Scale free following the introduction of WorkChoices. The separate 'Review of Junior and Training Wages in the Australian Labour Market' will also consider special FMWs.

2 This means that these Pay and Classification Scales exist as defined by legislation; they do not exist as physical documents.

It is not possible to 'contract out' of the Standard, or to agree that it will not apply. This means an employer must pay an employee at least the amount specified in the relevant Pay and Classification Scale for the relevant classification.<sup>3</sup>

There are approximately 4000 Pay Scales and about 105 000 classifications currently in existence.

A description of what is a Pay Scale is available from the Commission's website at [www.fairpay.gov.au](http://www.fairpay.gov.au).

### **Pay and Classification Scale-reliance in the Australian labour market**

The Commission's wage-setting decisions directly affect two categories of employees:

- 1) Employees who are directly reliant on the standard FMW or special FMW set by the Commission; and
- 2) Employees who rely on Pay and Classification Scales that are adjusted by the Commission's wage-setting decisions, e.g. employees who rely directly on Pay and Classification Scales and are not covered by a collective or individual agreement.

In addition, some employees may be indirectly reliant on Pay and Classification Scale rates of pay, for example where agreements specify rates of pay equal to those in the Pay and Classification Scale.<sup>4</sup>

This Review considers the role of Pay and Classification Scales for Pay and Classification Scale-reliant employees as well as the role of Pay and Classification Scales as a statutory minima underpinning agreements.<sup>5</sup>

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3 The Standard does not apply to pre-Work Choices agreements or Australian Workplace Agreements made before 27 March 2006 (even if those agreements operate after that date and while in operation past their nominal expiry date) or preserved State agreements, unless the agreement does not deal with a matter which is the subject of the Standard or the agreement is terminated or replaced by another instrument. As such, minimum wages set by Pay and Classification Scales, the standard FMW or an applicable special FMW do not apply to employees covered by these pre-WorkChoices agreements except where the agreement does not specify a basic periodic rate of pay.

4 Evidence to Employment, Workplace Relations and Education Committee, Senate, Commonwealth Parliament, Estimates 29 May 2006 (Employment Advocate): p. 131.

5 A separate 'Review of Junior and Training Wages in the Australian Labour Market' will also consider special FMWs.

**Table 1: Pay and Classification Scale-reliant<sup>6</sup> employees as at May 2006**

INDUSTRY	Number ('000s)	As % of total number of Pay and Classification Scale-reliant employees across all industries (a)	As % of total number of employees within that industry (b)
Retail trade	241.0	22.2	19.1
Property and business services	229.6	21.1	18.2
Accommodation, cafes and restaurants	151.9	14.0	37.6
Health and community services	131.7	12.1	12.8
Manufacturing	67.7	6.2	7.7
Wholesale trade	52.6	4.8	10.5
Construction	48.4	4.4	9.1
Education	44.1	4.1	5.6
Personal and other services	41.3	3.8	12.3
Transport and storage	37.8	3.5	9.6
Cultural and recreational services	21.3	2.0	10.4
Finance and insurance	15.6	1.4	4.3
Mining	2.0	0.2	1.9
Communication services	0.9	0.1	0.8
Electricity, gas and water supply	0.4	0.0	0.7
Government administration and defence	0.0	0.0	0.0
<b>All industries</b>	<b>1087.1</b>	<b>100.0</b>	<b>12.5</b>

Source: Percentages calculated using unpublished data from Employee Earnings and Hours (EEH) data, May 2006, ABS Catalogue 6306.0. Data are not collected for Agriculture, forestry and fishing. Estimates of numbers of employees on Pay and Classification Scales calculated using the number of non-farm employees from *Labour Force, Quarterly, Detailed, May 2007*, ABS Catalogue 6291.0.55.003, Table E05.

Notes:

- (a) Calculated as the number of employees in that industry that are paid the exact rate of pay specified in the relevant Pay Scale as a percentage of the total number of employees across all industries that are paid the exact rate of pay specified in the relevant Pay Scale.
- (b) Calculated as the number of employees in that industry that are paid the exact rate of pay specified in the relevant Pay Scale as a percentage of the total number of employees within that industry.

6 The Employee Earnings and Hours survey collects data on award reliance. It includes all employees in either the federal jurisdiction or the state jurisdictions that are earning the award rate of pay. Estimates of Pay and Classification Scale-reliance are therefore derived from the data on award reliance. The Commission's estimates of Pay and Classification Scale reliance include:

- employees who are working for incorporated businesses and are earning the exact award rate of pay; and
- employees who are working for non-incorporated businesses in Victoria, the Northern Territory or the Australian Capital Territory and are earning the exact award rate of pay.

The estimates of the numbers of employees that are on Pay and Classification Scales have been calculated using the number of non-farm (i.e. excluding agriculture, forestry and fishing) employees from the Labour Force Survey. Since the number of non-farm employees is higher in the Labour Force Survey than in the Employee Earnings and Hours survey, this gives higher estimates of the number of employees on Pay and Classification Scales.

**Table 2: Changes in Pay and Classification Scale-reliance:  
2004<sup>7</sup> to 2006**

INDUSTRY	Number ('000s)		As % of total number of Pay and Classification Scale-reliant employees across all industries (a)		As % of total number of employees within that industry (b)	
	May 2004	May 2006	May 2004	May 2006	May 2004	May 2006
Retail trade	254.6	241.0	23.6	22.2	20.9	19.1
Property and business services	156.9	229.6	14.6	21.1	14.5	18.2
Accommodation, cafes and restaurants	198.1	151.9	18.4	14.0	43.2	37.6
Health and community services	123.0	131.7	11.4	12.1	12.9	12.8
Manufacturing	114.8	67.7	10.7	6.2	12.2	7.7
Wholesale trade	51.5	52.6	4.8	4.8	11.7	10.5
Construction	53.5	48.4	5.0	4.4	12.0	9.1
Education	24.1	44.1	2.2	4.1	3.1	5.6
Personal and other services	32.8	41.3	3.0	3.8	10.3	12.3
Transport and storage	36.7	37.8	3.4	3.5	11.8	9.6
Cultural and recreational services	19.1	21.3	1.8	2.0	10.0	10.4
Finance and insurance	9.0	15.6	0.8	1.4	2.5	4.3
Mining	1.2	2.0	0.1	0.2	1.5	1.9
Communication services	0.4	0.9	0.0	0.1	0.4	0.8
Electricity, gas and water supply	0.6	0.4	0.1	0.0	1.2	0.7
Government administration and defence	0.0	0.0	0.0	0.0	0.0	0.0
<b>All industries</b>	<b>1079.8</b>	<b>1087.1</b>	<b>100.0</b>	<b>100.0</b>	<b>13.1</b>	<b>12.5</b>

Source: Percentages calculated using unpublished data from EEH data - May 2004 and May 2006, ABS Catalogue 6306.0. Data are not collected for Agriculture, forestry and fishing. Estimates of numbers of employees on Pay and Classification Scales calculated using the number of non-farm employees from *Labour Force, Quarterly, Detailed, May 2007*, ABS Catalogue 6291.0.55.003, Table E05.

Notes:

- (a) Calculated as the number of employees in that industry that are paid the exact rate of pay specified in the relevant Pay Scale as a percentage of the total number of employees across all industries that are paid the exact rate of pay specified in the relevant Pay Scale.
- (b) Calculated as the number of employees in that industry that are paid the exact rate of pay specified in the relevant Pay Scale as a percentage of the total number of employees within that industry.

The data show industries with significant numbers of employees on Pay and Classification Scales as at May 2006, together with changes in Pay and Classification Scale-reliance from May 2004 to May 2006. These were:

- Retail trade (241 000, decreased from 20.9 per cent to 19.1 per cent);
- Property and business services (229 600, increased from 14.5 per cent to 18.2 per cent);
- Accommodation, cafes and restaurants (151 900, decreased from 43.2 per cent to 37.6 per cent); and
- Health and community services (131 700, decreased from 12.9 per cent to 12.8 per cent).

In aggregate terms, the proportion of employees who are Pay and Classification Scale-reliant fell from 13.1 per cent of the Australian workforce in 2004 to 12.5 per cent in 2006.

<sup>7</sup> Pay and Classification Scale-reliance for May 2004 has been calculated by reference to reliance on Awards at that time.

## Key Questions

1. How do Pay and Classification Scales contribute to promoting the economic prosperity of the people of Australia?
2. To what extent do Pay and Classification Scales promote employment and competitiveness across the economy?
3. What role do Pay and Classification Scales play in the Australian labour market?
4. To what extent do Pay and Classification Scales enhance and/or inhibit the capacity of the unemployed and low paid to obtain and remain in employment?
5. To what extent do Pay and Classification Scales provide a safety net function in the labour market?
6. What is the safety net role of Pay and Classification Scales for the low paid?
7. What is the safety net role of Pay and Classification Scales for workers who are not low paid?
8. What role do Pay and Classification Scales play in setting actual wages in the workplace?
9. Would rationalisation of Pay and Classification Scales enhance the operation of the labour market?
10. What are the social costs and/or benefits of rationalisation? Are there any unintended consequences?
11. How would you propose the Commission move from the current system to a rationalised Pay and Classification system?
12. What might be the difficulties of moving from the current system to a rationalised system of Pay and Classification Scales?
13. What are the implications of leaving the system unchanged?

## Pay and Classification Scale rationalisation and Award rationalisation

The AIRC has responsibility for Award rationalisation. The Australian Fair Pay Commission is seeking views on the relationship between Award rationalisation and Pay and Classification Scale rationalisation - in particular, it is interested in the potential implications of undertaking Award and Pay Scale rationalisation separately.

## Key Questions

14. If Pay and Classification Scale rationalisation occurs, what is the effect of rationalising Pay and Classification Scales independently of the Award rationalisation process?

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