

AUGUST 2016

ERO CASE STUDY

FORECAST THE IMPACT OF THE EQUAL REMUNERATION ORDER ON SALARY COSTS FOR
12 WA COMMUNITY EMPLOYERS (JULY 2016 TO JUNE 2021)



CEWA and WACOSS Equal Remuneration Order Case Study 2016

Equal Remuneration Order

In June 2012, the Fair Work Commission passed an Equal Remuneration Order (ERO) to gradually increase wages for the Social, Community, Home Care and Disability Services Award over an eight-year period from December 2012 to December 2020.

Pay rates in the Award are adjusted twice a year;

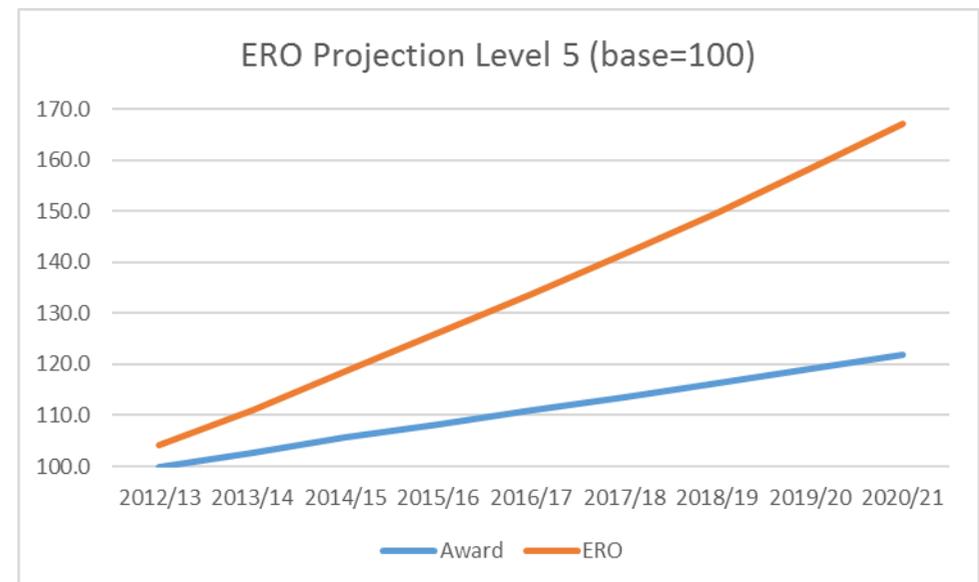
- On 1 July following the Fair Work Annual Wage Review
- On 1 December using a formula linked to the final ERO rates shown in the table opposite.

In December 2020, the full increase will apply. That is, from 23% above the underlying Award rate for Level 2, up to 45% above the underlying Award rate for Level 8. The chart shows the increasing gap between the underlying Award rate for Level 5 (increasing from a base of 100 in 2012 to 122 in 2020) and the ERO rate (increasing from a base of 104 in 2012 to 167 in 2020)

Prior to the announcement of the ERO, the WA Government increased funding to the community sector by 15% in July 2011 and 10% in July 2013 for eligible contracts. The additional funding provided to the WA community sector helped to meet some of the increasing costs of service provision, among which were the ERO pay obligations for the period from 2012 to 2016.

The purpose of this study was to forecast labour costs, for the period July 2016 to June 2021, for a sample of 12 WA NFP community services sector employers.

Level	Above Award
2	23%
3	26%
4	32%
5	37%
6	40%
7	42%
8	45%



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Survey Methodology

The study was commissioned by Community Employers WA and the WA Council of Social Service and was conducted by Julian Keys, SalaryOne in August 2016.

The study covered employees subject to the SCHCDS Award and did not include employees covered by other Awards. For example: child care, employment services, nursing, residential aged care and staff paid above Award Level 8 are excluded. It is important to note that given these exclusions, the total salary cost increases for many service providers will be significantly above the numbers detailed in this report.

The sample size comprised 1,800 employees in 12 NFP organisations with around \$150M combined revenue in 2015/16. Those sampled included service providers in disability, homelessness, mental health, corrections, child support services, drug and alcohol, family services and advocacy.

The calculations include base salary and superannuation. Additional payroll costs for shift work penalty rates and allowances were excluded.

The calculations use July 2016 staffing levels (FTE) and July 2014 pay rates. The reason for using fixed current staffing levels is to allow a 'like for like' comparison over the study period. The reason for using July 2014 pay rates is to record the ERO impact for the current financial year.

There was variability between organisations in the definition of full time hours (37.5 or 38 per week), payroll weeks per year (52 or 52.1667) and employer salary scales. Where an organisation had additional salary increments (compared to the Award), they were reduced in line with maximum Award salary increments.

Organisations were allocated a code (letters A to L) for privacy reasons.

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Data Forecast

Total Salary & Super for employees covered by ERO												
Org Code	A	B	C	D	E	F	G	H	I	J	K	L
2015/16	\$4,383,543	\$2,088,042	\$9,231,196	\$918,534	\$8,258,259	\$5,509,645	\$346,922	\$2,226,034	\$17,878,490	\$3,711,525	\$9,860,548	\$2,222,484
Salary & Super Increase Per Year (\$)												
Financial Year	A	B	C	D	E	F	G	H	I	J	K	L
2016/17	\$105,205	\$55,556	\$310,384	\$54,086	\$339,206	\$260,294	\$14,801	\$54,707	\$715,605	\$154,947	\$565,214	\$133,434
2017/18	\$107,730	\$78,148	\$420,241	\$57,408	\$379,729	\$326,849	\$19,155	\$58,322	\$1,009,311	\$205,444	\$622,497	\$138,460
2018/19	\$125,573	\$91,750	\$459,602	\$59,604	\$418,626	\$345,811	\$20,279	\$71,669	\$1,137,970	\$225,146	\$647,648	\$143,749
2019/20	\$165,589	\$94,874	\$503,226	\$61,871	\$440,611	\$364,028	\$21,033	\$96,586	\$1,181,301	\$236,003	\$672,679	\$149,212
2020/21	\$210,889	\$98,096	\$546,833	\$64,214	\$456,859	\$378,363	\$21,812	\$114,507	\$1,226,057	\$245,032	\$698,231	\$154,855
Increase \$	\$714,986	\$418,424	\$2,240,286	\$297,183	\$2,035,031	\$1,675,345	\$97,080	\$395,791	\$5,270,244	\$1,066,572	\$3,206,269	\$719,710
Increase %	16.3%	20.0%	24.3%	32.4%	24.6%	30.4%	28.0%	17.8%	29.5%	28.7%	32.5%	32.4%
Salary & Super Increase Per Year (%)												
Financial Year	A	B	C	D	E	F	G	H	I	J	K	L
2016/17	2.5%	2.7%	3.4%	6.2%	4.1%	4.7%	4.3%	2.5%	4.0%	4.3%	5.5%	6.0%
2017/18	2.4%	3.6%	4.4%	5.9%	4.4%	5.7%	5.3%	2.6%	5.4%	5.3%	6.2%	5.9%
2018/19	2.7%	4.1%	4.6%	5.8%	4.7%	5.7%	5.3%	3.1%	5.8%	5.5%	5.9%	5.8%
2019/20	3.5%	4.1%	4.8%	5.7%	4.7%	5.7%	5.2%	4.0%	5.7%	5.5%	5.8%	5.7%
2020/21	4.3%	4.1%	5.0%	5.6%	4.6%	5.6%	5.2%	4.6%	5.6%	5.4%	5.6%	5.6%

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Data forecast explanation (for the table above):

The table above shows the forecast salary and super costs for each agency to comply with the ERO for the period 1 July 2016 to 30 June 2017. The underlying Annual Wage Review increase is set at 2.4%. Over the past 5 years the AWR has ranged from 2.4% to 3.0% each year.

Organisation K is forecast to have the highest percentage increase (32.5%) in salary and super costs over the 5-year period. This equates to \$3.2M extra salary and super costs for one organisation to maintain staffing levels.

Organisation A is forecast to have the lowest percentage (16.3%) in salary and super costs over the 5-year period. This indicates that A is currently paying above Award salaries and faces pay increases of under 3.0% for the period up to 30 June 2019.

7 of the 12 organisations are facing annual salary increases of 5.3% or more each year for the next four financial years, July 2017 to June 2021.

10 of the 12 organisations are facing total salary increases of 20.0% or more over the 5-year period.

All of the organisations in the survey indicated that they are either 'extremely concerned' or 'very concerned' about meeting future employment costs under the ERO.

	Total Salary	Increase	Total Salary	Increase
2015/16	\$66,635,222		\$66,635,222	
2016/17	\$69,398,661	4.1%	\$67,634,750	1.5%
2017/18	\$72,821,955	4.9%	\$68,649,272	1.5%
2018/19	\$76,569,382	5.1%	\$69,679,011	1.5%
2019/20	\$80,556,395	5.2%	\$70,724,196	1.5%
2020/21	\$84,772,143	5.2%	\$71,785,059	1.5%
	\$18,136,921		\$5,149,837	
	27.2%		7.7%	

The final table shows the combined total salary costs for the 12 organisations, with a comparison to a more moderate 1.5% annual pay increase.

The 12 organisations – with combined salary costs of \$66.6M for 1,800 employees in 2015/16 – face cost increases of \$18.1M (27.2%) over a 5-year period 1 July 2016 to 30 June 2021 to comply with the Equal Remuneration Order.

If the same organisations paid 1.5% annual increases over the same 5-year period, the total increase would be \$5.1M (7.7%). That is, a difference of around \$13M, or 20%, between current wage rates (1.5%) and obligations under the ERO.

This survey shows that the impact of the ERO is systemic and presents a huge challenge for all community employers.

For example:

- Small employer (D) – Increases of \$54K to \$64K per year
- Medium employer (F) – Increases of \$260K to \$378K per year
- Large employer (I) – Increases of \$715K to \$1.2M per year