Briefing Paper:

Pay Equity in Community Services: The Consequences of Federal Budgetary Decisions

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Summary

- Federal supplemental funding to support the phase-in of pay equity in community services occupations expires in the current financial year (when the Commonwealth government's legislated 9-year allocation of extra funding to support pay equity wage adjustments expires).
- If that federal funding is not renewed (either by incorporation into a higher level of core funding for affected organisations, or through the extension of explicit pay equity supplements), powerful fiscal pressures will undermine and reverse progress toward pay equity, and jeopardise many thousands of jobs around the country.
- The loss of federal pay equity supplements would inevitably produce some combination of staffing cuts and wage cuts, as organisations respond to the significant loss of funding.
- If experienced fully through staff cuts, the end of federal supplements will likely result in the loss of close to 12,000 jobs in federally-supported community organisations.
- If the brunt of the funding cut is experienced through effective wage reductions (achieved through a range of potential channels described in the paper), it will reduce annual incomes for federally-funded community service workers by as much as $15,000 for full-time staff.
- The implementation of pay equity in community services has made a measurable difference to Australia's (slow and uneven) progress toward closing the gender pay gap. The broad health and social services industry (a feminized sector which includes most of these community service organisations) has reduced the gender pay gap by more than any other industry in the years since the pay equity reform was announced.
- Those past gains will be undermined and reversed unless federal funding consistent with new pay equity norms is quickly confirmed.

Introduction

This year marks the culmination of a lengthy and historic reform that is transforming the nature of work and compensation in a wide range of community services industries. After years of research and advocacy, the Fair Work Commission issued an innovative Equal Remuneration Order in 2012 providing for major adjustments in wages paid in non-governmental community services jobs. The order was a response to long-standing gender pay inequity in this sector. Because of the largely feminised nature of most of the jobs (80% of this sector's workforce is women), and chronic underfunding by governments, wages in the sector lagged far behind comparable roles in other industries with comparable skill and work requirements. Wage increases ranging from 23% to 45% (on top of normal annual wage adjustments) have been phased in over the last 8 years; the last of these pay equity adjustments will occur on 1 December of this year. To support the transition to pay equity, the Commonwealth and state governments have been providing supplemental funding to affected organisations, to help offset the higher labour costs resulting from pay equity. Most state governments have already pledged to continue that financial support as a now-normal part of core funding for these services (delivered through various funding streams). The Commonwealth government, however, has made no such commitment, and the clock is now ticking for the community service organisations which provide these services. Future employment levels and compensation in the community services sector is thus clouded by this uncertainty about future federal funding.

The Commonwealth government's indecision regarding the renewal of supplementary funding for pay equity comes as Australia's economy is locked in an unprecedented downturn resulting from the COVID-19 pandemic. Hundreds of thousands of jobs have disappeared, an estimated 20% of Australian workers are unemployed or underemployed, and business and consumer confidence have been deeply shocked. Household consumer spending accounts for 55% of total GDP. The willingness and ability of working families to re-inject their earnings into the economy through consumer spending is essential to any sustainable economic recovery. At this moment, reducing compensation for community service workers by hundreds of millions of dollars per year, and/or eliminating thousands of jobs in the sector, would impose another blow that the Australian economy clearly cannot afford. The impact will be particularly felt in regional communities, which have already been hard hit by the ongoing migration of population and employment toward large cities, and the cumulative impact of economic and natural disasters: including drought, fires, floods and now the pandemic. For all these reasons – basic fairness for these workers, the quality and stability of care they provide, and recovery from the present recession – it is vital that Commonwealth funding for pay equity in this sector be confirmed and extended.

Background

In February 2012, the Fair Work Commission issued a landmark decision on a pay equity case launched initially by the Australian Services Union over systematic gender-based pay discrimination in various non-governmental community services occupations.[1] The FWC agreed that wages in these jobs were unduly low, relative to appropriate comparators in public sector workplaces, in large part because the vast majority of workers (around 80%) in community services are women. The FWC thus issued an Equal Remuneration Order (ERO) requiring that workers in these jobs receive special pay increases of between 23% and 45% (on top of normal annual wage increases through the Awards system). These pay equity adjustments were to be implemented in 9 annual steps, running from 1 December 2012 through 1 December 2020. Workers would also receive their normal annual wage increases each 1 July as a result of the regular operation of the national minimum wage and Awards system.

At the time, it was estimated that about 150,000 workers would be affected by the pay equity decision. The ERO applied to two categories of workers covered by the composite *Social, Community, Home Care and Disability Services Industry Award* (the SCHADS Award). Those two categories included Social and Community Services (SACS) and Crisis Assistance Supported Housing (CASH). Two other categories of SCHADS-covered workers (home care and family day care workers) were not affected by the ERO. The size of pay equity adjustments depended on the specific wage category of covered worker: they were larger (up to 45%) for workers in more senior job classifications (SACS Level 8), where the gender-driven pay gap relative to comparable public sector roles was considered greatest; they were smaller for more junior positions (equivalent to 23% for SACS Level 2 positions).

Community service organisations receive most of their funding through government grants and subsidies of various kinds: some provided by the Commonwealth government, some by state governments, and some through cost-shared programs involving both levels of government. The significant size of the pay equity adjustments, and the importance of labour costs in the overall budgets of affected organisations,[2] meant these organisations faced immediate financial challenges to pay for the wage adjustments. To recognise this challenge and support the transition to pay equity in this sector, the Commonwealth and state governments allocated special targeted funding supplements to assist affected organisations in paying the new labour costs as directed

[1] See Fair Work Commission, "Decision: Equal Remuneration Case, 1 February 2012, https://www.fwc.gov.au/documents/sites/remuneration/decisions/2012fwafb1000.htm.

[2] The most affected service organisations (such as community mental health and settlement services) spend 80% or more of their total budgets on wages for workers who were covered by the ERO, and hence the pay equity award drove very significant increases in their total costs. See Australian Government, Department of Social Services, "Average SACS wage component percentages for eligible Commonwealth Programs," https://www.dss.gov.au/communities-and-vulnerable-people/fair-pay-for-social-and-community-services-workers/average-sacs-wage-component-percentages-for-eligible-commonwealth-programmes.

by the ERO, while still maintaining their level of services. Those funds were allocated to organisations across the full range of affected services according to a complex set of formulae. In the Commonwealth's case, a special budgetary allocation – called the *Social and Community Services Pay Equity Special Account* [3]– was created to pay for these additional allocations. That account provided a total of $2.8 billion over 8 years in supplements to federally-supported community service providers (both sole federal-funded programs, and the federal share of joint federal-state programs). The amounts paid out increased each year as the ERO wage increases were phased in.[4] In the final allotment under this Special Account, covering financial year 2020-21, $576.5 million was budgeted by the Commonwealth government to support the final stages of the implementation of pay equity in federally-supported community service providers.

The ultimate step in the FWC's ERO timetable will be achieved on 1 December 2020. At that point, pay equity in this sector (as defined by the Commission, relative to comparable public sector occupations) will finally have arrived. However, this achievement is tempered by a significant threat. The Commonwealth government has yet to commit to maintaining any of its supplemental financial support, which has been critical in allowing affected organisations to meet the financial requirements of pay equity. Most state governments (including NSW, Victoria, WA, SA, Tasmania, and ACT[5]) have confirmed their willingness to support (through various budgetary channels) the ongoing additional costs associated with maintaining the new, higher level of wages now being paid in community services because of the ERO. But the Commonwealth government, despite concern expressed by community organisations and NGOs,[6] has yet to commit to maintaining any supplements to cover the extra pay equity costs. Thus, after the current, final installment of payments from the Special Account is completed this year, affected community organisations could be facing a substantial funding gap. That would inevitably jeopardise the historic progress toward pay equity that has been achieved in this sector.

The Community Services Workforce

At the time of the ERO in 2012, it was estimated that over 150,000 Australians were working in award-covered jobs within the scope of the pay equity pay increases.[7]

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[3] See Federal Register of Legislation, "Social and Community Services Pay Equity Special Account Act 2012," https://www.legislation.gov.au/Details/C2017C00248.

[4] The amount of additional funding increased each year for several reasons: the gradual implementation of the pay equity adjustments; normal increases in the level of base wages due to annual wage adjustments; and growth in the size of the affected workforce. Between 2015 and 2020, the annual federal special payments grew at an average annual rate of 17%.

[5] And discussions to confirm the maintenance of pay equity funding are continuing in Queensland and NT.

[6] See Anna Patty, "Funding cut threatens community sector wage parity and services, ACOSS warns," *Sydney Morning Herald*, 16 December, 2019.

[7] This estimate stems from Commonwealth government estimates submitted to the FWC during the course of the pay equity case; see "Equal Remuneration Case, Fair Work Australia: Australian Government Submission," 8 July, 2011, https://www.fwc.gov.au/documents/sites/remuneration/submissions/austgovt_submission_08-jul-11.pdf.

Because part-time work is very common in community services work, this was equivalent to under 100,000 full-time equivalent positions.

Workers in a wide range of specific community service jobs and functions (funded through an equally broad variety of fiscal arrangements involving the federal government, the state government, and other sources) fell under the initial scope of the ERO. These included:

- Disability support work
- Child protection, youth and family services
- Housing and homelessness services – including youth refuges, and women's refuges
- Community mental health services & community alcohol and other drug services
- Domestic violence and women's services
- Aboriginal community welfare & legal services
- Community legal centres
- Migrant and settlement services
- Community and neighborhood centres
- Peak, policy and advocacy services

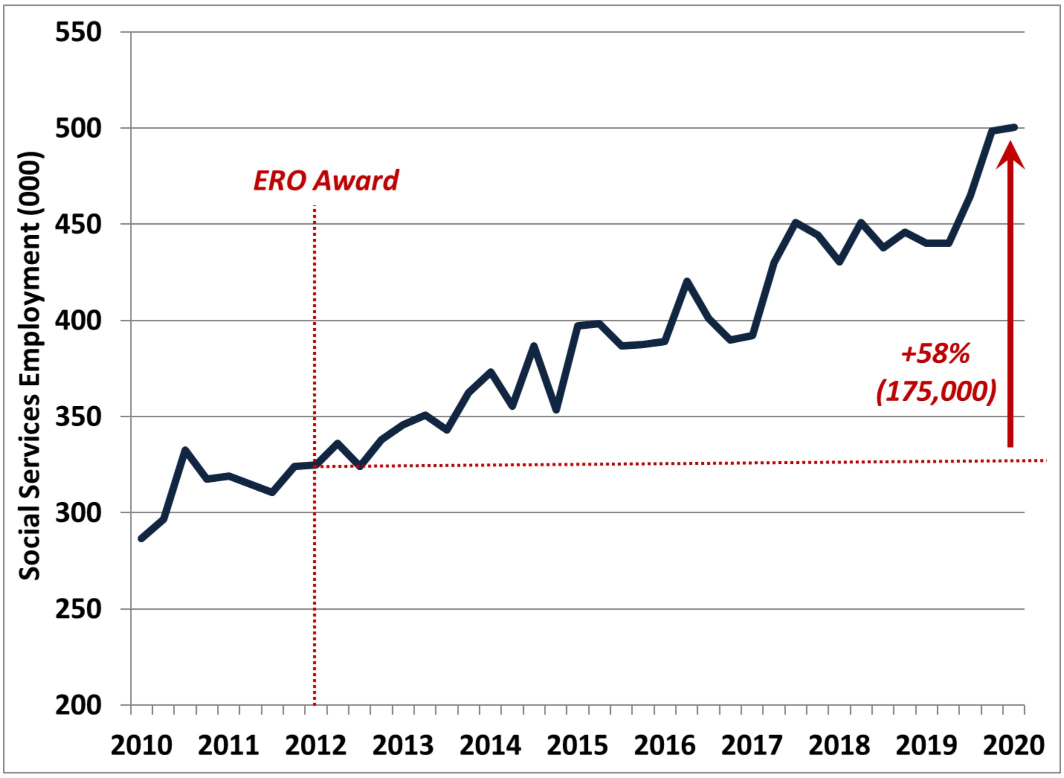
The Australian Bureau of Statistics reports employment data by industry and occupation through a range of different surveys and publications, and this data help to understand the relative importance of the ERO in the overall community services workforce. For example, the ABS's detailed quarterly labour force survey estimated employment in the overall (and very diverse) 'Social Assistance Services' sector at 317,000 positions in 2011.[8] By that measure, close to half of all workers in this broad sector were ultimately affected by the pay equity award. Another estimate of employment in the broad community services sector is provided by the ABS's quarterly data on employment by occupational sub-grouping. Two of those occupational categories overlap with the types of positions affected by the ERO: 'Health and Welfare Support Workers' and 'Carers and Aides.' (Both of these categories also include significant numbers of workers in other roles who were not affected by the ERO.) In 2011, the ABS counted some 521,000 workers employed in those two occupational categories. So by that estimate, close to 30% of workers in those categories would have been covered by the pay equity adjustments. By either measure, a very significant proportion (between 30 and 50%) of this important workforce received substantial economic benefits as a result of the ERO.

Moreover, the broad community services workforce has been one of the fastest-growing sources of new employment in the whole economy in the years since the ERO was first promulgated. That means that a growing number of Australian community services

[8] Author's calculations from ABS Catalogue 6291.0.55.003.

workers, including many who were not employed at the time of the historic pay equity decision, have received substantially higher pay as a result of the decision.

Figure 1. Rapid Growth of Community Services Employment, 2011-2020



Source: ABS Catalogue 6291.0.55.003, Table 6.

According to the ABS's quarterly industry employment data, the combined 'Social Assistance Services' workforce has expanded by 58% since that original estimate was made in 2011 – reaching just over 500,000 employed workers in total in early 2020 (prior to the onset of the COVID-19 pandemic and resulting workplace restrictions). As illustrated in Figure 1, that represents a net increase in employment of some 175,000 new jobs. In contrast, overall employment in Australia grew by just 17% in the same period, less than one-third as fast.

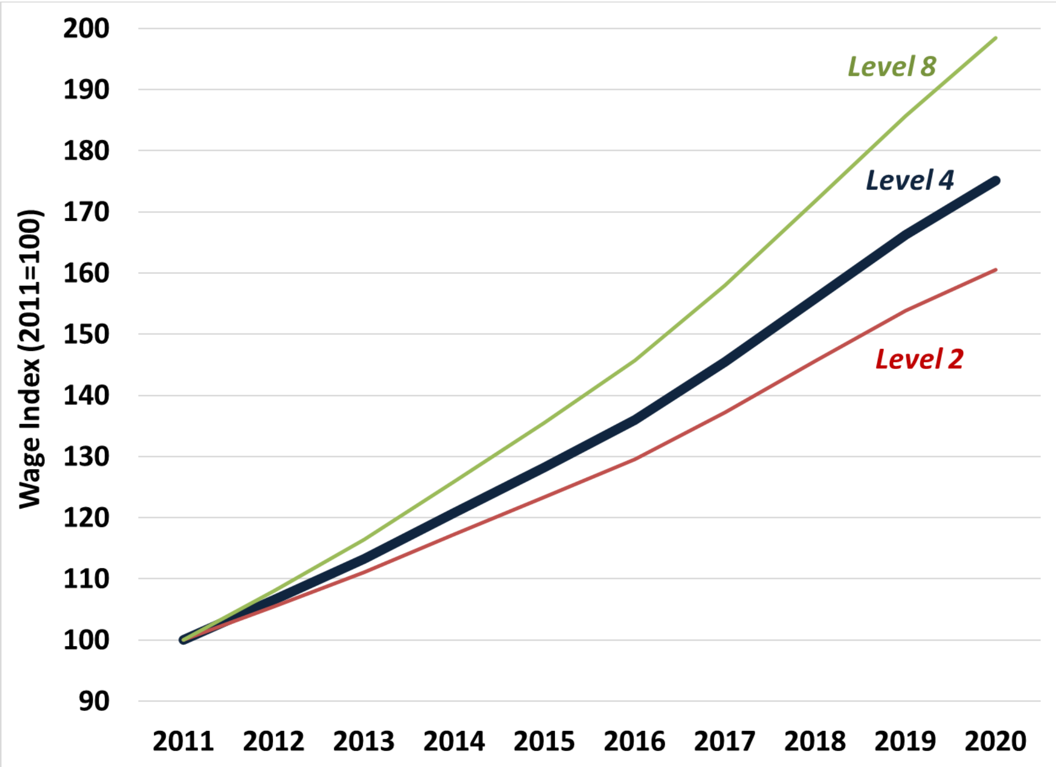
Another measure of the expansion of community services employment is provided by the ABS's occupational employment data. Combined employment in the two occupational categories identified above as encompassing many ERO-affected workers ('Health and Welfare Support Workers' and 'Carers and Aides') grew by 40% in the same period. That represents a net increase in employment of over 200,000 new positions.

By either measure, it is clear that pay equity in this rapidly-growing sector has become even more important in the years since the ERO was issued. The rapid expansion of the community services sector, and the workforce which delivers those services, make it all the more critical that government ensure continuing financial support for the payment of equitable compensation to this mostly female workforce.

What Pay Equity Has Meant to Affected Workers

The ERO required the implementation of special pay equity wage adjustments, phased in over an 8-year period, across several different classifications of workers covered by the SCHADS Modern Award. Those pay increases were issued on top of normal annual pay adjustments under the operation of the national minimum wage decisions and their flow-through impact on Award wage rates. Indeed, the ERO adjustments were implemented on a compound basis: each year's adjustment was applied to the prevailing wage at that time (including the effects of previous minimum wage adjustments). For that reason, the ultimate impact of the ERO was even larger, measured in dollar terms.

Figure 2. Wage Gains for Social and Community Service Workers, 2011-2020



Source: Author's calculations from Fair Work Commission.

Figure 2 illustrates the cumulative increases in wages for three classifications of workers covered by the ERO: SACS grades 2, 4 and 8. The combined compound increases (arising from annual Award wage increases each July and the pay equity increments each December) drove rapid growth in incomes.

Wage rates for junior SACS pay grades (Level 2) increased by a cumulative 60% between 2011 and 2020. Wages in senior classifications (Level 8) have effectively doubled in the same time. Figure 2 also illustrates the path for an intermediate classification (Level 4), which has been widely used as a 'representative' wage rate for the broader ERO-covered workforce.[9] Wage rates at that level grew by a cumulative total of 75% relative to the 2011 starting point. In every case, the positive impact of the pay equity award led to much stronger wage improvements than were experienced in the broader labour market.[10]

For individuals working in these classifications, the pay equity award has made an enormous difference to their standard of living. Using the SACS Level 4.1 wage specified in the SCHADS award as a benchmark, as of 1 July 2020 the base hourly wage reached $35.63 per hour.[11] The cumulative increases in the award rate (combining both the annual wage adjustments each July and the December pay equity awards) have added $15 per hour to their wages (or some $30,000 per year for a full-time worker[12]). Wages for this work are still relatively low: the current SACS 4.1 wage rate is still about one-fifth below the average hourly wage paid to full-time employees in the broader labour market.[13] But the pay equity adjustments have undeniably transformed the nature of compensation in this vital sector, and provided community services workers with much better opportunity to attain decent living standards for themselves and their families. For a typical employee at the SACS 4.1 level working year-round at 26 hours per week (the average weekly working hours in community services jobs[14]), the pay raises resulting from the ERO allow a solo parent with two children to earn enough to exceed the commonly-defined poverty threshold of 50% of median incomes.[15] But without the pay equity award, that family would be living below the poverty line – despite the parent being in year-round work at typical hours, performing a vital community service. For both the fair treatment of the workers providing community services, therefore, as well as the quality and sustainability of the services they deliver to their client populations, the ERO award has had a powerful and positive impact.

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[9] See, for example, Australian Government, Department of Social Services, "Percentages used to calculate supplementation," https://www.dss.gov.au/our-responsibilities/communities-and-vulnerable-people/fair-pay-for-social-and-community-services-workers/percentages-used-to-calculate-supplementation.

[10] In contrast, average nominal weekly wages in Australia increased by just 22% from end-2011 to end-2019; author's calculations from ABS Catalogue 6302.0.

[11] Pay schedules under the SACS and CASH streams of the SCHADS Award are provided by the Fair Work Commission, "Social & community services industry pay rates," https://www.fairwork.gov.au/pay/minimum-wages/social-and-community-services-industry-pay-rates. Hourly pay for SACS Level 4.1 varies slightly across states, but only by a few cents.

[12] Keep in mind that the prevalence of part-time work in community services work is very high, so the level of full-time earnings should not be interpreted as representative of income levels for most workers in the sector. Almost half of employees in the broader 'Social Assistance Services' sector in Australia worked part-time in 2019, and that ratio was higher in non-governmental community services (author's calculations from ABS Catalogue 6291.0.55.003, Table 6).

[13] Author's calculations from ABS Catalogue 6302.0.

[14] The assumed average working hours is derived from the relationship between total and FTE employment levels reported by the Australian Government, 'Equal Renumeration Order,' op. cit.

[15] See ACOSS and UNSW Sydney, *Poverty in Australia 2020, Part 1*, p.12, http://povertyandinequality.acoss.org.au/wp-content/uploads/2020/02/Poverty-in-Australia-2020_Part-1_Overview.pdf. Poverty threshold adjusted for inflation to 2020.

The Consequences of Ending Pay Equity Supplement Payments

With the final tranche of ERO wage adjustments coming into effect on 1 December 2020, the long phase-in of pay equity in community services work will finally have been completed. Only after this date will covered workers be earning wages that reflect their skills and qualifications, and the inherent challenges of the work, in comparison to long-prevailing compensation levels in relevant comparator jobs in public sector organisations. In other words, as of 1 December of this year, pay equity will have finally 'arrived'.

However, the challenges of providing a sustainable fiscal basis for pay equity in the sector, to a large extent, are really just reaching their crux. The Commonwealth and state governments recognised in 2012 that achieving necessary pay equity in the sector would require incremental fiscal support, and they designed and implemented a range of special funding measures to assist community service providers in making the transition to pay equity. That support had to grow each year, because the cumulative impact of the ERO (relative to pre-2012 wage levels) became larger as the special pay adjustments were phased in. Now that the end-point of the ERO timetable is about to arrive, the need for that fiscal support continues unabated. With pay equity fully in place, the service-providing organisations will require the maintenance of that fiscal support at an equivalent scale, or else the pay equity gains achieved over the past 8 years will be jeopardised.

State governments have variously indicated that they are prepared to recognise the ongoing fiscal necessity of funding these community services at an increased rate, in light of the permanent increase in overall wage levels resulting from the ERO. Scrutiny will be required to ensure that core operating grants and other state-level funding streams to community services providers are indeed adequate to cover those incremental wage expenses. But at least the state governments have acknowledged the necessity of continued fiscal support, and most have clearly indicated their intention to provide it.

Fiscal support for pay equity for another important group of workers covered by the ERO also seems to be confirmed: disability service workers, who are also mostly paid according to the SACS wage scale, are now largely compensated on the basis of unit price arrangements regulated by the National Disability Insurance Agency. Those unit price calculations have taken the pay equity requirements arising from the ERO explicitly into account, and so in that sense the continuation of pay equity in disability services has also already been 'funded'.[16]

[16] There are many issues and shortcomings with the NDIS unit pay structure, including its failure to provide for adequate overhead, training and supervision time, transportation costs, and fragmentation of work schedules; see N. Cortis et al., "Reasonable, necessary and valued: Pricing disability services for quality support and decent jobs, Social Policy Research Centre, University of New South Wales, 2017, and D. Baines et al., *Precarity and*

At the federal level, however, the maintenance of fiscal support to ensure continued pay equity in federally-funded community services is shrouded in needless and worrying uncertainty. Federal officials have engaged in discussions and consultations about the implications of pay equity for ongoing budget requirements in community services,[17] but have refused to confirm that necessary fiscal support will be forthcoming in the eventual 2020-21 budget (which was delayed by the COVID-19 pandemic) and other policy decisions. Specifically, the fate of the Social and Community Services Pay Equity Special Account, which is exhausting its final installment in the current fiscal year, is unknown. Without a quick and complete commitment by the federal government to continued fiscal support on a scale sufficient to provide for the ongoing costs of pay equity in the essential community services organisations it supports, it is not clear how the historic pay equity gains achieved in this sector will be sustained by organisations which depend on federal funding (whether sole federal-funded or shared federal-state funding[18]).

In financial year 2020-21, the Pay Equity Special Account is providing $576.5 million in supplemental funding to federally-supported community service providers to cover the extra compensation costs arising from the ERO. That funding is delivered to hundreds of different organisations through a complex set of formulae – taking into account numerous parameters such as the share of SACS- or CASH-specified labour costs in the total budgets of each category of service, the level of wages that prevailed before the ERO came into effect,[19] and other factors. The amount of funding that would be required to maintain that intensity of support for pay equity will actually increase in subsequent financial years, due to increases in the overall level of wages (resulting from normal annual wage adjustments) and continuing growth in the overall level of community services employment. How will those organisations respond if instead of keeping up with normal growth in the total cost of pay equity adjustments, federal supplemental support instead disappears completely?

Several responses by community service organisations are likely, if the current federal funding for pay equity is not maintained and in fact expanded. The level of wages paid at each category of work are fixed by the SCHADS Modern Award, which (after 1 December) will fully incorporate the special pay equity adjustments specified under the ERO. Therefore, wages for a given job cannot simply be cut back to their pre-pay-equity

Job Instability on the Frontlines of NDIS Support Work, Centre for Future Work, 2019, for more discussion of problems with the NDIS unit price system. Without suggesting that NDIS unit prices are 'adequate', however, they have at least taken explicit account of ERO-adjusted wage levels in their funding formulae.

[17] See Patty, op. cit.

[18] The afore-mentioned commitments by state governments to funding the ongoing costs of pay equity in this sector extend only to the state portion of cost-shared programs, and state governments have made it clear they will not shoulder the extra costs of continued pay equity funding for the federal component of those shared programs.

[19] Wage awards in community services originally differed markedly across states, and hence the 'gap' that had to be closed between previous prevailing wages and the benchmarks set under the ERO also differed by state.

levels, and in that superficial sense the pay equity adjustments cannot be 'undone'. However, community service providers do not have 'free' fiscal resources which they could simply reallocate to fill the funding gap left by the disappearance of federal pay equity funding. So, the cessation of that funding will inevitably result in contractionary measures by organisations that would undo both the spirit and the real gains of the pay equity award:

- Providers may reduce staffing levels to offset the gap in funding resulting from the end of supplemental pay equity funding. This will result in an unsustainable intensification of work for those workers remaining on staff, and a decline in the quantity and quality of services provided.
- Providers may reassign existing staff or new hires to other job classifications which provide lower wages, thus effectively undoing some of the wage gains associated with the ERO.
- Providers may cut back on other supplemental forms of compensation and labour costs (including training time and allowances, supervision and group work time, and other benefits and entitlements), also undermining effective total compensation and/or leading to an intensification and deterioration in the quality of these jobs.

Concerning evidence regarding the likely response of service providers to the disappearance of supplemental pay equity funding was provided by an important study published by the Social Policy Research Centre at UNSW.[20] This research surveyed some 1450 community service workers in NSW (including over 400 managers and directors) to ascertain the importance of supplemental pay equity funding to their respective organisations, and the likely effects of the end of that funding. Over half of the surveyed organisations confirmed they receive pay equity supplemental funding from at least one level of government,[21] with both state and federal supplements being widely received across the sector. The loss of those supplements was predicted to have many cascading impacts on service delivery, including:

- Reduced staff levels and redundancies.
- Further difficulties attracting new staff to the sector (since wage levels are relatively low, and job insecurity prevalent, staff recruitment and retention is already a major challenge for the sector).
- Cutbacks in the quantity and quality of services delivered.

As one agency CEO put it bluntly, in response to the survey:

[20] Natasha Cortis and Megan Blaxland, Challenges for Australia's Community Sector: ERO Supplementation, Social Policy Research Centre, UNSW, 2020.
[21] Another significant share of respondents did not know if they received supplemental pay equity funding.

> "The impact on our organisations will be staff reduction, reduced service provision and ultimately less clients able to access the service." (Cortis and Blaxland, p.9)

A final consequence predicted by respondents to the UNSW survey is especially painful in light of the laudable goals, and impressive achievements, of pay equity reform in community services. Program directors and managers reported that the loss of supplemental funding would directly undermine their efforts to strengthen and extend gender equity within their organisations. In addition to the important adjustments to pay levels required by the ERO (and concretised in the SCHADS Award), these organisations undertake various complementary measures to strengthen other dimensions of gender equity in their workplace: including recruiting more women, training and promoting women into more senior roles, implementing family-friendly rosters and other arrangements, and more. In this way, by precipitating a broader crisis in the financial stability of community service providers, the end of federal pay equity supplements would have a very negative impact on broader progress toward a more equitable, sustainable community service sector.

Modeling the Wage and Employment Impacts of Ending Pay Equity Supplements

This section provides summary estimates of the likely impact of the end of federal pay equity supplements on employment and wages in the community services sector. We begin by estimating the current number of workers in positions covered by ERO pay equity provisions. As noted above, it was initially estimated (in 2011) that the award would apply to approximately 153,000 workers (or 93,000 full-time equivalents).[22] As illustrated in Figure 1, employment in these services has increased substantially since the ERO began to be implemented. Between 2011 and early 2020, total employment in 'Social Assistance Services' increased by 58%. Employment in two key occupational groupings associated with that work (health and welfare support workers, and carers and aides) increased by over 40% in the same period. We will assume a midpoint estimate of 50% growth in ERO-covered positions since 2011, implying a current covered workforce of close to 230,000 workers (or 140,000 in FTE terms).

Recall that disability support workers under the NDIS are now funded according to a different funding model: through unit prices for defined services, financed through the federal-state NDIS arrangements. So while those workers are covered by the pay equity provisions of the ERO, funding for the resulting increase in labour costs is now delivered through NDIS channels, and those jobs should therefore be unaffected by the continuation or withdrawal of federal pay equity supplements. The workforce associated with disability services provision was estimated at 68,700 positions by

[22] See Australian Government, "Equal Remuneration Case, Australian Government Submission," op. cit.

Productivity Commission research in 2011.[23] While no formal data on the size of the workforce currently employed in disability service provision are available, various sources (including the Productivity Commission itself[24]) expect the disability support workforce to double in size in the course of the full roll-out of the NDIS. As of end-2019, the NDIS had enrolled 340,000 participants,[25] and hence is about two-thirds of the way toward final expected coverage of 500,000 participants. We therefore estimate current NDIS-related employment equal to just under 115,000 positions: the 2011 starting point (nearly 70,000) plus two-thirds of the new positions expected in the course of full roll-out of the new system. This estimate is equivalent to one-half of our estimated current number of ERO-covered workers (230,000).

Of the remaining workforce of non-disability community service workers (just under 115,000), we assume that half work in positions that are wholly or partially dependent on federal funding.[26] This suggests that at present there are around 57,400 community service workers working in positions that depend on continued federal pay equity support – and whose future job and income security is thus contingent on the renewal and maintenance of supplements for pay equity provisions.

Average earnings among this workforce are estimated as follows. We use the SACS 4.1 pay grade as a benchmark for typical earnings (following the practice of previous studies, as discussed above), equal to $35.63 as of 1 July 2020. (That will increase further by over $1 per hour with the final ERO adjustment on 1 December.) Assuming an average of 26 hours worked per week, average annual income for Level 4.1 workers is thus approximately $48,000 per year. Across the estimated population of federally-funded community service workers, therefore, this implies aggregate labour compensation of around $2.75 billion.

The supplemental financial support provided by the Commonwealth government through the Social and Community Services Pay Equity Special Account (equal to $576.5 million in the current financial year) therefore accounts for 21% of estimated total compensation in federally-supported community service organisations. What will occur if that funding is not sustained in subsequent years? Inevitably, organisations will be forced to effectively cut employment levels (and hence service provision) and/or to cut the effective wages of employees funded through the program. While minimum wages for each classification are set by the terms of the SCHADS award, and hence cannot be

[23] Productivity Commission, Disability Care and Support: Productivity Commission Inquiry Report Volume 2, 2011, https://www.pc.gov.au/inquiries/completed/disability-support/report/disability-support-volume2.pdf, p. 694.

[24] See Productivity Commission, "National Disability Insurance Scheme (NDIS) – Costs", 2017, https://www.pc.gov.au/inquiries/completed/ndiscosts/report, p. 323.

[25] National Disability Insurance Agency, *The NDIS Market*, 31 December 2019, file:///C:/Users/jims/Downloads/201912%20-%20The%20NDIS%20Market%20PDF.pdf.

[26] This is broadly consistent with the survey results reported by Cortis and Blaxland, op. cit.

directly reduced, there are other strategies which service organisations may follow to reduce effective compensation levels. These strategies include:

- Reallocating workers to other job titles and wage classifications with lower wage levels. This could occur by directly transferring employees to different classifications, or by downsizing existing staff levels and then hiring new workers into lower-paid positions.
- Reducing or canceling various supplemental forms of compensation, including allowances, training funds, and other entitlements.
- Outsourcing or restructuring employment to nominally independent contractors or other external positions, in order to avoid minimum compensation provisions of the SCHADS award (since those workers would no longer be formally engaged as 'employees').

If the full brunt of lost federal pay equity supplements was experienced through reduced staffing levels, then the failure to renew those supplements would result in the elimination of almost 12,000 jobs – or over one-fifth of the current estimated workforce in federally-supported non-disability community service organisations. Alternatively, if the full impact of lost federal funding were experienced via reduced effective wage levels, wages paid in these organisations would decline by an average of close to $7.50 per hour. For full-time workers, that would result in a reduction in annual incomes of almost $15,000 per worker. For people working at the average number of hours (26 hours per week), that produces a decline in annual incomes of over $10,000.

In real practice, the loss of federal pay equity supplements will likely produce some combination of job losses and reductions in effective compensation. And regardless of whether the pain is experienced via job losses or wage cuts, the damage will be severe. The goals of improving the fairness and sustainability of work in this vital sector, where jobs have been historically undervalued by virtue of the feminisation of most positions, will be jeopardised. And the impressive progress toward pay equity that has been achieved as a result of the ERO will inevitably begin to be rolled back.

Without doubt, the impact will be particularly painful in regional communities, which typically experience higher unemployment and underemployment, and are already hard-pressed to recover from other recent and ongoing disasters (like the bushfires) and try to replace jobs lost from traditional industries. In these communities, the opportunity cost of losing fairly-paid jobs in community services, provided largely by organisations relying upon federally funded pay equity supplements, would be severe.[27]

[27] See *The Future of Regional Jobs*, Regional Australia Institute, April 2019, http://www.regionalaustralia.org.au/home/quarterly-regional-jobs-update/.

Macroeconomic Side-Effects of Job and Pay Cuts

It goes without saying that this is precisely the wrong moment in Australia's economic history to be eliminating 12,000 jobs or cutting the effective wages of modestly-paid workers by over 20%. Australia's economy is locked in the worst downturn it has experienced since the Great Depression of the 1930s, as a result of the COVID-19 pandemic and resulting restrictions on movement, work and activity. As of July 2020, official unemployment had surged to over 1 million Australians (the highest in history). The official unemployment rate hit 7.5% – but that figure does not tell the full story. Counting Australians who were technically 'employed' but not working (due to health restrictions or lack of business), and those who wanted to work but were not 'actively seeking' work (and hence excluded from the official measure of unemployment[28]), a better measure of effective unemployment is closer to 20%. The recovery of Australia's economy from this health and economic catastrophe will take many years. The course of recovery is highly uncertain given both the possibility of future waves of infection, and the negative spillover effects of the current recession on future spending and hiring decisions, reinforced by ongoing drought and the onset of the next bushfire season.

In this context, the failure by the Commonwealth government to support the wage and employment gains which have been achieved in community services organisations would be a needless self-inflicted wound. Australia's economic recovery will need all the jobs, and all the support for household incomes, that government can possibly provide. Failure to sustain fiscal support for pay equity awards would inevitably translate into spillover impacts on household finances and consumer spending, thus exacerbating the current macroeconomic crisis.

Consider that on average in Australia, consumers spend two-thirds of their incremental income on final consumption spending (after deducting taxes and personal savings).[29] Expenditure in Australia encompasses an average import penetration ratio of just over 20%: that is, one dollar of every five is spent on imported goods and services.[30] This implies that around 50 cents of each dollar in incremental income is spent on Australian-made goods and services.[31]

Therefore, the $576.5 million in incremental pay equity financing, channelled directly into the wages of community services workers, translates into approximately $300 million in incremental consumer spending on Australian-made goods and services. On the basis of average employment ratios across the whole range of produced goods and services, this supports an additional 2,000 jobs in the full range of consumer product

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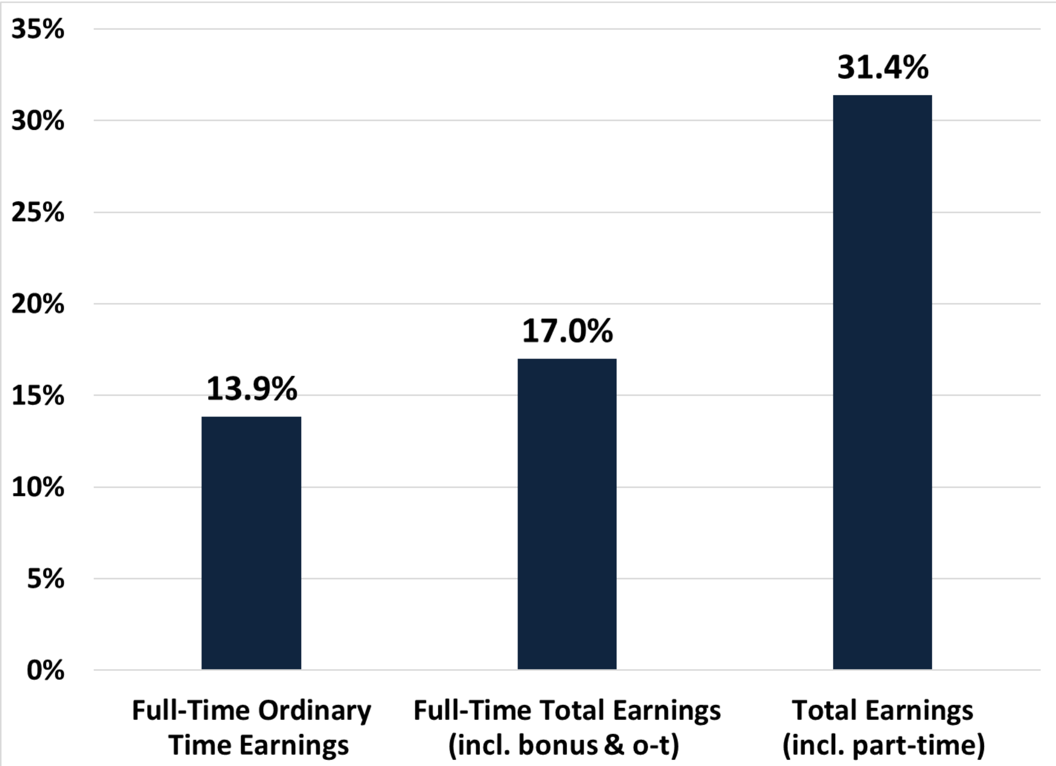
[28] It is self-evidently impossible to be 'actively seeking work', as per the ABS definition of unemployed, when health restrictions prevent people from leaving their homes.
[29] Author's calculations from ABS Catalogue 5206.0, Table 20.
[30] Author's calculations from ABS Catalogue 5206.0, Table 3.
[31] More precisely, 79% (domestic expenditure share) of 67% (average expenditure propensity) equals 53% (average propensity to spend on domestic production).

and service industries. Cuts in total labour compensation in this sector resulting from the cancellation of federal pay equity support (likely effected through some combination of staff reductions and wage cuts) would thus exact a painful toll on employment and wages in other industries – in addition to the direct damage done within community services organisations.

Australia's Halting Progress to Pay Equity

A systematic and structural gap in incomes between men and women continues to be a major economic and social problem in Australia, holding back millions of women workers from full recognition of their productivity and work effort, and undermining family financial well-being, gender equality, and macroeconomic performance. Progress toward reducing the gender pay gap has occurred, but it has been slow and uneven. The persistence of the broader gender pay gap in the overall labour market makes it all the more essential that the important gains toward pay equity achieved in the community services sector be protected and maintained through adequate fiscal support from government.

Figure 3. Measures of Gender Pay Inequality, November 2019



Source: Author's calculations from ABS Catalogue 6302.0, Tables 10A-10F.

There are several different methodologies for measuring the gender pay gap. The most commonly-cited (but somewhat misleading) approach is to compare weekly ordinary-time earnings for men and women in full-time work. Some argue that this focuses the measurement of the pay gap on a 'pure' gender effect, after controlling for other factors such as the incidence of part-time work or access to overtime hours and bonuses. By that measure, women earned 14% less than men at the end of 2019 (see Figure 3). The pay gap by that measure has narrowed gradually by some 3.5 percentage points over the previous decade.

However, that common measure understates the true extent of gender pay inequality in Australia by a considerable margin. Firstly, it excludes the impact of additional pay, such as overtime earnings and bonuses. On average men receive larger amounts of this additional income, for various reasons: including greater ability to work longer hours, and other factors that are clearly related to gender inequality in the workplace and at home. If those additional sources of income are included, then the gender pay gap for full-time workers rises to 17%. Even worse, by excluding the differential effects of part-time work from the calculation, the common ordinary-full-time approach to measuring the pay gap misses the fact that women are far more likely to be employed in part-time work than men. This, too, clearly reflects gender inequality at home and at work: in particular, the lack of access to quality, affordable child care and early child education prevents many families from having both parents work full-time, and it is most often the mother who works part-time as a result. This is clearly an important dimension of gender pay inequality that should be considered in any complete analysis. If we extend the analysis to all workers (not just full-time workers), then the estimated gender pay gap more than doubles: to 31.4% as of late 2019. By those alternative measures, too, the gap has slowly narrowed over the past decade (by about 4 percentage points) – but it is still painfully large and unfair.

The special pay equity adjustments attained under the ERO for community service workers have made an important contribution to Australia's progress in reducing the gender pay gap. Indeed, the impact of the ERO is even visible in aggregate data on gender inequality. Table 1 provides a sectoral breakdown of the gender pay gap, using the conventional measure (full-time ordinary time earnings). There is bad news and good news regarding the gender pay gap in the broad health care and social assistance sector (the sector which encompasses most of the community services included in the scope of the ERO). The bad news is that this broad sector still demonstrates the largest gender pay gap of any major sector in Australia's economy. This is because women are concentrated in the lower-paid occupations within health and social services – including female-dominated positions in community services provision. (As noted above, women account for about 80% of all workers in the services covered by the ERO award.) Men, in contrast, are more likely to work in higher-paid jobs within the sector: including professional, management, and skilled trades roles. As of end-2019, women in full-time jobs in the health and social assistance sector earned 22% less than men: a larger gap than for any other sector. By the alternative measures explained above, the gap is even larger: 24% measured by all earnings for full-time workers, and 29% measured by total weekly earnings (including part-time workers).

The good news from the sectoral decomposition of the gender pay gap, however, is that more progress has been made toward closing the gender pay gap in health and social assistance workplaces than in any other part of the economy. Measured by any of the three indicators outlined above, the gender pay gap narrowed by 10 percentage points in health and social service jobs over the last decade. That's more than any other sector. About one-tenth of the broader health care and social assistance workforce is covered by the ERO affecting community services. There is no doubt that the significant reductions in gender pay inequity arising from that award have contributed to the economy-leading progress toward fair pay that has been recorded in the broader health and social services sector. At the same time, the persistence of the gender pay gap – in the broader economy, and most acutely in social services work – make it vital that these past gains be protected and supported.

Table 1
Gender Pay Gap by Sector

Sector	Gender Pay Gap (Nov.2019)	Narrowing of Gap (since May 2010)
Health & Soc.Assist.	22.3%	10.3%
Finance	22.2%	9.4%
Pro. & Technical	22.1%	4.4%
Rental	18.2%	6.9%
Construction	17.5%	1.1%
Info. & Telecom.	17.2%	2.4%
Private Admin.	16.4%	-0.4%
Wholesale	16.2%	3.2%
Transport	15.9%	-6.6%
Arts & Rec.	14.5%	2.4%
Mining	13.7%	7.6%
Education	12.0%	-2.7%
Utilities	10.7%	2.8%
Manufacturing	10.3%	8.7%
Retail	8.5%	-1.7%
Hospitality	8.2%	0.2%
Public Admin.	5.7%	1.8%
Other Services	4.1%	7.2%
Total Economy	**13.9%**	**3.5%**

Source: Author's calculations from ABS Catalogue 6302.0, Tables 10A and 10D. Compares weekly ordinary-time earnings for full-time workers.

Conclusion

The implementation of pay equity in a wide range of community services in Australia is reaching its culmination this year, following years of research, advocacy, policy innovation and phased implementation. The 2012 ERO has had a transformative impact on earnings in these positions, and more broadly on the value and legitimacy with which these vital jobs are treated. Significant increases in compensation for the mostly-female workforce in these industries have allowed workers to attain a more reasonable standard of living; for some it has lifted them and their families out of poverty. The pay equity reforms have also made a noticeable difference to overall progress in reducing the gender pay gap in Australia; specifically, the broader health and social services sector (within which most of these funded services are included) has demonstrated the fastest progress toward pay equity in the period since the ERO was promulgated, of any industry in Australia's economy.

The achievements of this innovative and important reform are thus undeniable: for the workers, for the clients and populations they serve, and for the broader goal of gender equality. However, those achievements will undoubtedly be thrown into question unless the Commonwealth government quickly confirms its commitment to maintaining financial support for pay equity in the organisations and services which it funds. There are also very clear implications for the country's recovery from recent natural disasters and the current recession, particularly in regional Australia. The schedule of supplemental financing which was announced to facilitate the sector's adjustment to pay equity is concluding this year.

The most appropriate response by the Commonwealth government would be to increase core budgets for all of the community services it funds, to reflect the 'new normal' of pay equity. Since the ERO will be fully implemented as of 1 December, and the wage benchmarks it established will now continue as part of the normal schedule of wage classifications defined in the SCHADS Award, ongoing base funding for these services and organisations should reflect the new level of wages as a normal cost of operation. There should thus be a permanent 'step up' in the level of core funding for these services from the Commonwealth government. Alternatively, the government must extend and expand supplemental funding flows which were initially intended as a transition measure.

The amount of pay equity supplementation would need to increase beyond the $576.5 million allocated in financial year 2020-21, to reflect both the continuing increase in base wage levels (which will rise this year by 1.75% as per the Fair Work Commission's recent minimum wage decision) and the continuing growth of total employment in this sector. For 2012-22, an equivalent level of support would exceed $600 million, and that amount would need to continue to grow in the future.[32]

Whether delivered through a permanent upward shift in budgeted support for community services, or through the continuation of special supplemental payments, one way or another the Commonwealth government must commit to maintaining the fiscal foundation for pay equity in this vital sector. And the longer the government delays in confirming that continued support, the more uncertainty and disruption it imposes on organisations and workers that are already doing so much, with so little.

[32] From 2015 through 2020 the federal Pay Equity Special Account payments increased at an annual rate of 17%. That rate of growth would slow, of course, in future years because the phase-in of wage adjustments will be completed this year. But the total amount of supplemental support would still need to keep pace with rising base wages and growing employment.