Commission confirms 3.3% minimum wage increase and transitional arrangements for penalty rates

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Authors: Andrew Farr, Tim Frost, Bryony Binns, Prue Smith

In brief

The Fair Work Commission (FWC) has confirmed increases to the national minimum wage and award rates from 1 July 2017, and transitional arrangements for reductions to penalty and Sunday rates for workers in the retail, pharmacy, fast food and hospitality sectors.

Minimum wages are set to increase by 3.3 per cent. The FWC decided to increase both the national minimum wage, and modern award rates of pay by 3.3 per cent from 1 July 2017. This will result in an increase from the current national minimum hourly rate of $17.70 to $18.29, or a weekly rate of $694.90.

Transitional arrangements for penalty and Sunday rates will be introduced from 1 July 2017 in the hospitality, fast food, retail and pharmacy sectors. The FWC has now confirmed how transitional arrangements will apply to its recent decision to reduce penalty rates in these sectors.

In detail

Annual Wage Review

- The FWC has confirmed a 3.3 per cent increase to the national minimum wage, resulting in increases of $0.59 to the minimum hourly rate and $22.20 to the minimum weekly rate.
- From 1 July 2017, new national minimum wage rates will be $18.29 (hourly) and $694.90 (weekly for a full time employee).
- The increase of 3.3 per cent is substantially more than the 2.4 per cent or $15.80 a week increase that was granted last year.
- The FWC has confirmed that the 3.3 per cent increase will also apply to modern award minimum rates of pay from 1 July 2017.
- The decision affects more than 2.3 million employees who are reliant on minimum rates of pay.

Penalty rates - transitional arrangements

- Changes to Sunday penalty rates will be phased in over three financial years in the hospitality and fast food sectors, and over four financial years in the retail and pharmacy sectors.

- Changes to public holiday penalty rates set out in the FWC's prior Penalty Rates decision will take effect on 1 July 2017, without transitional arrangements. See our LegalTalk Alert dated 24 February 2017 for more information on the Penalty Rates decision.
- The reductions will commence on 1 July 2017 in all sectors.
- The table in Appendix 1 sets out the transitional arrangements for the reduction in Sunday penalty rates in each of the four sectors.
- The FWC noted that reductions in Sunday penalty rates were more significant in the retail and pharmacy sectors, justifying a longer transition period.
- Relevant unions have signalled that they are appealing the decision to reduce penalty rates and the Labor party has indicated it may seek to enshrine penalty rates in the National Employment Standards.

The current environment

Although the unions were advocating for a very large wage increase of $45 per week, or 6.7 per cent, general expectations were that the wage increase would be in a similar range to previous years. This was particularly the case when the most recent economic statement, the 2017 Federal Budget, based its figures on moderate wage growth moving from a current record low of just 1.9 per cent to 3.75 per cent wage increases over a four year period.

However, this increase should have come as no surprise. A review of the most recent Trends in Federal Enterprise Bargaining report, issued in April 2017 for the December 2016 quarter, identified that the average wage increase across all of the 1,016 enterprise agreements approved in this quarter was 3.3 per cent.

It is interesting to note that this is the exact figure the FWC arrived at in its annual wage review decision.

The takeaway

- These changes commence on 1 July 2017, which is just around the corner.
- Employers should review wage rates to ensure that payroll systems take account of relevant increases to minimum wages and changes to penalty and Sunday rates (if relevant), in time for 1 July 2017.
- The law does not mandate a reduction of Sunday penalty rates. Employers may choose to pay above the modern award standard and maintain the current penalty rate.
- Employers in the hospitality, fast food, retail and pharmacy sectors should review the transitional arrangements to penalty and Sunday rate reductions to understand the potential impact of changes, particularly in forecasting future labour costs.
- More generally, employers should also consider the impact of the FWC's annual wage review decision. For employers who are currently bargaining, there is no doubt this increase will place pressure on employers to offer higher annual wage increases. For other employers who have mid-year salary review processes, including for non-award employees, this higher than expected outcome will also raise expectations of employees.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

Andrew Farr, Partner, Legal
+61 (03) 8603 1128
andrew.farr@pwc.com

Tim Frost, Partner, Legal
+61 (02) 8266 4609
tim.frost@pwc.com

Bryony Binns, Partner, Legal
+61 (02) 8266 1107
bryony.binns@pwc.com

Appendix 1 – transition timeline for reductions in Sunday penalty rates

***General Retail Industry Award 2010*:**

Full-time and part-time employees		Casual employees (inc of casual loading)	
1 July 2017	200% to 195%	1 July 2017	200% to 195%
1 July 2018	195% to 180%	1 July 2018	195% to 185%
1 July 2019	180% to 165%	1 July 2019	185% to 175%
1 July 2020	165% to 150%		

***Pharmacy Industry Award 2010*:**

Full-time and part-time employees		Casual employees (inc of casual loading)	
1 July 2017	200% to 195%	1 July 2017	225% to 220%
1 July 2018	195% to 180%	1 July 2018	220% to 205%
1 July 2019	180% to 165%	1 July 2019	205% to 190%
1 July 2020	165% to 150%	1 July 2020	190% to 175%

***Fast Food Industry Award 2010*: Level 1 only**

Full-time and part-time employees		Casual employees (inc of casual loading)	
1 July 2017	150% to 145%	1 July 2017	175% to 170%
1 July 2018	145% to 135%	1 July 2018	170% to 160%
1 July 2019	135% to 125%	1 July 2019	160% to 150%

***Hospitality Industry (General) Award 2010*:**

Full-time and part-time employees		Casual employees (inc of casual loading)
1 July 2017	175% to 170%	Unchanged at 175%
1 July 2018	170% to 160%	
1 July 2019	160% to 150%	