



***LOCATION***

***SUBMISSION BY SOUTH AUSTRALIAN  
DEPARTMENT OF TREASURY AND FINANCE***

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## **SOUTH AUSTRALIAN SUBMISSION ON LOCATION**

### **Interstate wage costs**

South Australia supports the continued use of the Survey of Education and Training (SET) based model for the interstate wages assessment due to the absence of suitable alternatives. The SET based model does recognise a wide range of factors that impact upon wages, and therefore can provide a reasonable estimate of the residual interstate wages differential after standardising for industry, occupational composition and so forth.

However, the SET based model has a range of limitations which should be taken into consideration by the CGC in deriving the overall assessment. South Australia is of the view that these limitations (i.e. exclusion of unemployed respondents, differences in raw human capital as indicated by results of standardised year 3 educational tests and greater network productivity in larger cities) justifies a bigger discount than 15%.

Contemporaneity. The Draft Report acknowledges the point South Australia has made previously that the proposed use of the Labour Price Index (LPI) to adjust the quadrennially collected SET data could be contaminated by industry composition effects.

The Commission presently removes such effects from the SET data but, from the work reported to us, does not consider industry structure to be a material influence on LPI movements. We continue to believe that compositional effects are material and a “structural” adjustment or discount is necessary to remove these effects in order to capture the pure wage differential.

To accurately measure the effects of industry structure, it would be desirable to apply to each State the national weights for each private sector broad industry group (ie based on percentage of employment) and multiply those by the relevant State’s LPI increase for that industry. This standardises industry structure and would effectively remove the State-specific industry structure effects.

However, we understand that industry wage movements are not universally available from the ABS for all States – although they may be on a confidential basis. In the absence of this data, the Commission has instead applied national wage growth by industry to each State’s industry structure – in effect, removing differences in wage movements by industry but still accepting industry structure differences.

We ask the Commission to try to obtain industry level LPI movement data to allow removal of industry structure effects – at least for a few *prima facie* standout industries eg mining – which do tend to pay higher wages or experience greater increases than other sectors in some periods. We note that any materiality calculation should be recalculated using three-year relativities.

**Regional costs — which recognise differences in wage costs, employee housing costs and other non-wage costs within States**

South Australia supports the CGC's proposed approach for this assessment based on separate assessments for employee housing costs and a gradient for all other regional non-wage costs.

South Australia considers it unlikely that it would be able to supply comprehensive data for non-wage costs in services other than policing and schools. We are relatively happy with the quality of the data sets that we have provided the CGC for Police and Schools. Whether these datasets provide a good proxy for other State services is unclear. Schooling and police services are similar in that they are services that must be provided across the board to all communities, irrespective of population characteristics and size. Other State government services, however, are characterised by being more targeted, such as welfare or primary industry services.

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