



**2017 Update**

**Wage Costs Assessment**

**Tasmania's Response to Staff Discussion Paper  
CGC 2016-18-S**

**Department of Treasury and Finance**

**November 2016**

## **Introduction**

This paper contains Tasmania's response to the Staff Discussion Paper CGC 2018-18-S New Issues for the 2017 Update – which presents estimates of wage cost differences following the release of ABS 2015 Characteristics of Employment Survey (CoES) data.

In the 2016 Update, the Commission moved to the new, annual ABS CoES as the source for estimates of wage cost differences between States. However, the 2014 CoES did not include information on educational attainment due to a processing failure by the ABS. Commission Staff nevertheless thought it still to be superior (more contemporaneous) compared to continuing to use the previous 2009 Survey of Employment and Training (SET) indexed each year.

The 2015 CoES was released in August 2015 and now contains the missing educational attainment, and trade union membership data. Commission staff have now been able to include this data in their modelling of wages cost differences and apply it to the 2016 Update Wage Cost factors with the relevant variation.

### **The educational attainment variable**

The Commission's modelling shows that inclusion of the educational attainment variable in the Commission's econometric model has a material effect on the GST redistribution (more than \$10 per capita). As mentioned in Tasmania's response to Staff Discussion Paper CGC 2015-05-S, the omission of the educational attainment variable for the 2016 update was well short of ideal and that education and qualifications attainment are crucial explanatory variables in determining wage levels.

Tasmania therefore supports the inclusion of the educational attainment variable in the Commission's econometric model for the 2017 and future updates.

### **The trade union membership variable**

The Commission's modelling also shows that the inclusion of the trade union membership variable in its econometric model has no material effect on the GST redistribution.

Tasmania therefore supports the exclusion of the trade union membership variable in its econometric model for the 2017 and future updates.

### **Use of discounts**

In the New Issues for the 2017 Update - Staff Discussion CGC-2016-5-S Staff sought State views on the Commonwealth Superannuation Scheme (CSS) adjustment only in relation to the Wages Assessment data update. However, in the Staff Discussion Paper 2016-18-S it has responded to other issues raised by States regarding the use of discounts.

## **General discount**

Tasmania has strongly regarded the general discount of 12.5 per cent to be insufficient given that in its view, there is still great uncertainty around using private sector wages as a proxy for public sector wages.

The consultant report commissioned by Commission Staff for the 2015 Methodology Review and completed in February 2015, *Public-private sector wage differentials in Australia: What are the differences by State and how do they impact GST redistribution decisions* employed Oaxaca-Blinder decomposition to identify the two components of the average wage gap between the public and private sectors, private sector pay and the public sector premium over private sector pay.

The consultant concluded that based on its analysis “*there is some evidence that the states are competing in a national market for their public sector workers and cannot diverge too much from the national norms as they all need very similar and specific types and quality of workers. The view that the higher public sector premium in the low wage states is a result of the need to compete, rather than of just excessive generosity, is supported by the fact that in these states the average public sector pay is also relatively low. Those states that have the lowest private sector wages also have the lowest public sector wages.*”<sup>ii</sup>

In answer to the question of whether State Governments have to pay different wages to their respective workers to attract the same quality labour, the consultant concluded “*yes, that states differ in the wages typically earned by same quality private sector workers (and Tasmania had the lowest private sector pay). If they competed only with their own private sectors, we would see greater differences in the public sector premium. But they also compete with the public sectors in other states and this leads to some convergence in public sector wages across the country*”<sup>iii</sup>.

As noted in our response to Staff Discussion Paper CGC 2015-05-S, there should be an increase in the general discount, which is currently set at the minimum 12.5 per cent, in recognition of evidence that states are competing in the local and national public sector markets for the skills they need and that using private sector wages as a proxy has significant limitations.

## **State specific adjustment for Tasmania**

A specific adjustment for Tasmania was last used in the 2010 Review because data from the 1997, 2001 and 2005 SET indicated that public sector wages could not fall as low as the SET data suggested its relative private sector wages had fallen. On this basis, the Commission applied a 25 per cent discount factor to Tasmania’s modelled outcome to account for this uncertainty in the data. In the 2011 Update the discount was discontinued because Tasmania’s modelled outcome using the new 2009 SET data suggested its relative private sector wages no longer fell outside the bounds within which public sector wages lay.

However, in the 2016 Update Report the Commission noted that based on the new CoES data, Tasmania’s private sector wages for a comparable employee were again well outside the range found for any public sector wage relativities (8.9 per cent below average, with Victoria being the next lowest at 5.7 per cent below average). The Commission determined that using the previous SET data for 2012-13 and 2013-14 (ie not backcasting) resulted in a three year average that was 6.2 per cent below the average, which the Commission considered was not so far below the average as to suggest it was an infeasible outcome. The Commission therefore concluded that no adjustment was required for Tasmania in the 2016 Update.

As stated in our response to New Issues for the 2017 Update - Staff Discussion CGC-2016-5-S, the implication Tasmania draws from this is that the 8.9 per cent below average result for Tasmania may have been considered infeasible, but the three year average result of 6.2 per cent below average wasn’t infeasible. However, if the 2015 CoES data returns a result similar to 8.9 per cent below average for Tasmania, the three year average will drift further from the national average.

The 2015 CoE survey is now available and while lower than 2014 CoES result, Tasmania’s relative private sector wage differential is nevertheless still fairly high at 7.0 per cent below the national average and still well above the 2013-14 modelled outcome (5 per cent below average).

When the combined 3 year average is calculated using the indexed SET estimate for the first assessment year and CoES estimates for the last two assessment years, Tasmania’s three year average relative private sector wages increases from 6.2 per cent below the national average to 7.0 per cent below the national average. This raises the question as to at what point does Tasmania’s result become infeasibly extreme as to warrant a specific adjustment.

It is noted in the following Table I. that when comparing the two years of SET data for the period 2012-14 and the two years of CoES data 2014-16, there is a distinct step change in Tasmania’s relative private sector wages from -4.8 per cent to -8.0 per cent, and the gap between public sector wages has widened which is not observed for other States excepting South Australia.

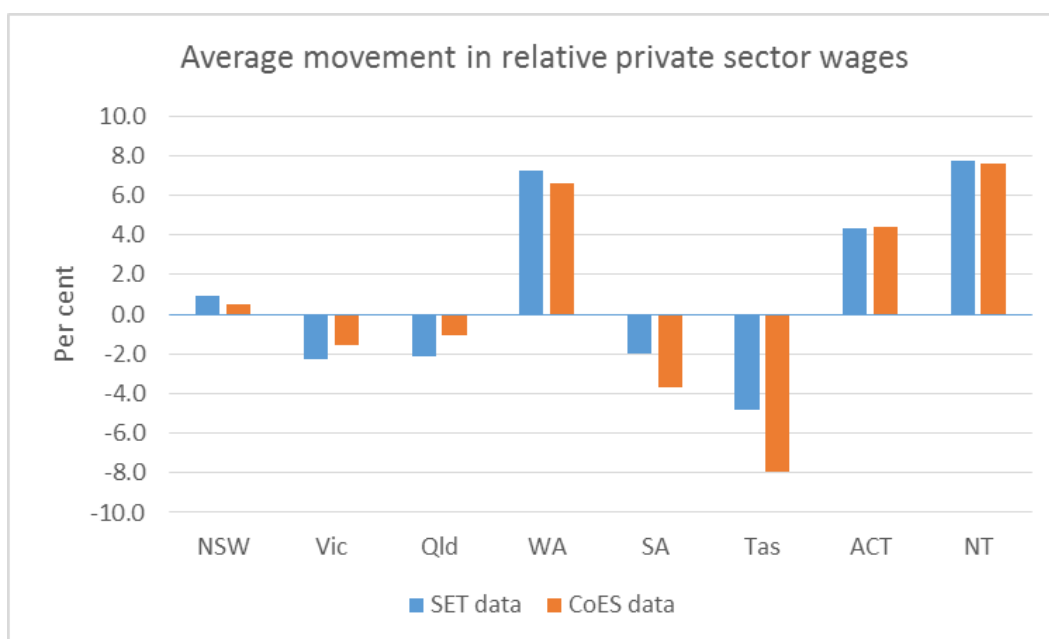
**Table I. Average movement in relative private sector wages**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Average movement	%	%	%	%	%	%	%	%
2012-13 to 2013-14 <sup>(a)</sup>	1.0	-2.3	-2.2	7.3	-2.0	-4.8	4.3	7.8
2014-15 to 2015-16 <sup>(b)</sup>	0.5	-1.6	-1.1	6.6	-3.7	-8.0	4.4	7.6

<sup>(a)</sup> average 2009 SET data

<sup>(b)</sup> average CoES data

This is highlighted in the following chart



This result seems surprising and possibly indicates that there could be an issue with the assessment methodology and the use of the new CoES data.

There is also some evidence to suggest that the comparison with public sector wage differentials in Victoria in the 2016 Update (to justify not adjusting Tasmania's assessment) may not be as valid for the 2017 Update.

Notwithstanding the policy differences that are embedded within actual public sector wages paid, the following table suggests that Victoria's State public sector wage variation from the national average has reduced between 2013-14 and 2014-15. Whereas Tasmania's three year average relative private sector wage variation from the national average has grown from 6.2 per cent to 7.0 per cent. It also shows that variations in public sector wages in 2014-15 do not appear to support the CoES modelled results.

**Table 2. Movement in State Government Public Sector Wages 2013-14 to 2015-16**

	State Government Employees					State Wages and salaries		Average wages per employee		Variation from national average	
	Jun-13 '000	Jun-14 '000	Jun-15 '000	Av 2013-14 '000	Av 2014-15 '000	2013-14 \$M	2014-15 \$M	2013-14 \$'000 p.a	2014-15 \$'000 p.a	2013-14	2014-15
NSW	455.9	469.7	464.2	462.8	467.0	34,154.2	33,942.4	73.80	72.69	0.8%	-1.9%
Vic	332.9	333.2	334.2	333.1	333.7	22,730.6	23,490.4	68.25	70.39	-6.8%	-5.0%
Qld	289.7	298.1	304.7	293.9	301.4	22,077.3	22,599.5	75.12	74.98	2.6%	1.2%
SA	114.1	114.1	115.0	114.1	114.6	8,194.5	8,311.4	71.82	72.56	-2.0%	-2.1%
WA	172.2	167.3	169.8	169.8	168.6	13,141.6	13,655.9	77.42	81.02	5.7%	9.4%
Tas	39.6	39.2	37.8	39.4	38.5	2,875.2	2,950.5	72.97	76.64	-0.4%	3.5%
NT	25.1	26.9	26.5	26.0	26.7	2,130.9	2,283.5	81.96	85.52	11.9%	15.4%
Act	24.7	24.4	24.0	24.6	24.2	1,897.2	1,999.8	77.28	82.64	5.5%	11.6%
Aust	1,454.2	1,472.9	1,476.2	1,463.6	1,474.6	107,201.4	109,233.4	73.25	74.08	0.0%	0.0%

Source: ABS Employment and Earnings, Public Sector Australia 6248.0.55.002

While it is acknowledged that the definition of public sector used for the data series is fairly broad, there is no adjustment to standardise occupations within states (although it is argued that occupational composition is fairly consistent), and that employee numbers are a head count rather than full time equivalents, the ABS Employment and Earnings data is nevertheless an indicator of the variations in public sector wages paid between States.

Therefore, Tasmania considers that there is still uncertainty with the use of CoES data and the consultant's report also supports this conclusion. The modelled outcomes for Tasmania fall outside the bounds within which public sector wages should lie and therefore an adjustment to Tasmania's assessment is required in addition to the general discount.

### **The Commonwealth Superannuation Scheme (CSS) adjustment**

As stated in Tasmania's response to Staff Discussion paper CGC 2016-05-S, if the CSS adjustment is no longer material then the Commission should discontinue the adjustment. As the Commission has now retested the materiality of the CSS adjustment and found that it is not material in the 2017 update then Tasmania supports the recommendation to remove the CSS adjustment in the Wages assessment.

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<sup>i</sup> *Public-private sector wage differentials in Australia: What are the differences by State and how do they impact GST redistribution decisions, 19 February 2015, National Institute of Labour Studies Flinders University.*

<sup>ii</sup> Op Cit