



**ACT**  
Government

# **COMMONWEALTH GRANTS COMMISSION 2025 METHODOLOGY REVIEW OF GST REVENUE SHARING RELATIVITIES**

***CONSULTATION PAPERS ON ASSESSMENT  
– TRANCHE ONE (PART TWO)***

**ACT Government Submission**

ACT GOVERNMENT SUBMISSION  
NOVEMBER 2023

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# CONTENT

## Contents

ABBREVIATIONS.....	4
EXECUTIVE SUMMARY.....	5
DISABILITIES ASSESSMENTS.....	6
WAGES.....	6
CONSULTATION QUESTIONS .....	6
Question 1 .....	6
Question 2 .....	6
Question 3 .....	7
Question 4 .....	7
Question 5 .....	7
Question 6 .....	8
Question 7 .....	8
Question 8 .....	8
Question 9 .....	9
Question 10 .....	9

# ABBREVIATIONS

<b>Term</b>	<b>Definition</b>
ACTPS	ACT Public Service
APC	Actual per capita
APS	Australian Public Service
CGC	Commonwealth Grant Commission or Commission
CoE	Characteristics of Employment
GST	Goods and Services Tax
LEED	Linked Employer-Employee Database
STP	Single Touch Payroll
2025 Review	2025 Methodology Review

# EXECUTIVE SUMMARY

In June 2023, the Commonwealth Grants Commission (CGC) released a series of consultation papers on draft assessments for the 2025 Methodology Review (2025 Review) covering 15 assessment areas. The consultation papers set out the CGC's proposed assessments, seeks views from states and territories on the proposed assessments and seeks answers on specific consultation questions.

The ACT welcomes the opportunity to comment on the CGC's proposed assessments and consultation questions. The ACT is responding to the Tranche One consultation papers in the following two parts:

- Submission: Part One – Commonwealth Payments, Insurance Tax, Land Tax, Mining Revenue, Motor Taxes, Stamp Duty on Conveyances, Health, Justice, Native Title and Land Rights, Post Secondary Education, Schools, Services to Communities, Transport and Socio-economic Status.
- Submission: Part Two – Wages.

The Submission: Part Two (the Submission) outlines the ACT's responses to the consultation paper on Wages, addressing the CGC's consultation questions.

The ACT welcomes the approach of splitting the CGC's proposed assessments in two Tranches of papers to allow jurisdictions to manage the associated workload in relation to the CGC 2025 Review, the flexibility provided by the CGC in responding to these papers in multiple parts and ongoing support from CGC staff to the ACT in understanding how the CGC has formed its initial positions.

Overall, the ACT is supportive of the CGC's approach towards the 2025 Review and the flexibility provided to ACT to respond to Tranche One consultation papers.

# DISABILITIES ASSESSMENTS

## WAGES

### Summary

Wage costs are recognised as a disability that strongly influences, and hence differentiates, wages paid to public sector employees in different jurisdictions.

The wage cost disability is partly determined by differences in labour markets beyond the control of state and territory governments.

The wage cost disability is applied to the assessment for all expense categories according to the proportion of labour costs in each category, and as an input to investment.

The ACT supports the continued use of private sector wages as a policy neutral proxy for public sector wages, and broadly supports all the CGC's proposals to improve the model reliability for the wage cost assessment with suggestions for further analysis around the usual hours categories and appropriateness of including both broad-occupation and detailed-occupation as control variables.

The ACT does not see a need for the continued application of the 12.5 per cent discount after the improvements are made to the model, as this would unnecessarily further smooth the differences in wage structure across jurisdictions.

## CONSULTATION QUESTIONS

### Question 1

Do states agree on continuing to use private sector wages as a policy neutral proxy for the market pressures faced by public sector employers?

#### **ACT Position**

The ACT supports the continued use of private sector wages as a proxy for public sector wages as this approach complies with the policy neutrality principle.

### Question 2

Do states agree that the Commission should continue to use all private sector employees to proxy for public sector drivers of costs?

#### **ACT Position**

The ACT agrees the CGC to continue using all private sector employees as a proxy for public sector drivers of costs rather than replacing it with only female private sector wages.

The ACT notes using female private sector wages would reduce the sample size of the Characteristics of Employment (CoE) survey used in the wage costs assessment. This would have a significant impact for smaller jurisdictions, like the ACT, which is less represented in the survey. Hence, this would reduce the robustness of the model to reflect the pressure on public sector wages.

This is supported by the CGC's analysis based on CoE data, which shows the correlation coefficient of 0.72 for total private sector is higher than for female private sector wages only (0.63)<sup>1</sup>, likely due to the reduced sample.

### **Question 3**

Do states support the continued use of the Characteristics of Employment (CoE) survey data?

#### ***ACT Position***

The ACT supports the continued use of the CoE survey data for the wage costs assessment. The ACT notes at this stage the CoE survey data is the only data source that provides the characteristics the CGC applies in its regression model to assess the wage costs factor for each jurisdiction.

However, the ACT recommends the CGC remain open to exploring different data sources, such as the ABS Monthly Employee Earnings Indicator<sup>2</sup> combined with Weekly Payroll Jobs<sup>3</sup> (new data series), or Linked Employer-Employee Database (LEED)<sup>4</sup>.

### **Question 4**

Do states agree the Commission should use hourly wages rather than weekly wages as the dependent variable?

#### ***ACT Position***

The ACT agrees the CGC should use hourly wages rather than weekly wages as the dependent variable in the regression model. This reduces complexity without resulting in any significant change in the state coefficients. The ACT considers this better captures the impact of part-time and casual employment on wages by eliminating sensitivity of wage estimates to short-term changes in hours worked. Further, the ACT notes that removing usual hours and paid hours as explanatory variables for non-linear and interacting terms (as initially proposed) would mitigate the prospect of endogeneity issue.

### **Question 5**

Do states support including usual hours of work in the model as 3 categories, part-time, full-time and more than full-time hours?

#### ***ACT Position***

The ACT recommends the CGC analyse the data to show whether working part-time, full time and more than full time hours would affect employees' earning potential differently. This is to show the conceptual case whether it is necessary to differentiate usual hours of work under those three categories, or whether specifying it by part-time and full-time hours would suffice, with full-time hours including working more than full-time hours, as earning potentials for the latter two may be similar, if not different.

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<sup>1</sup> 2025 Methodology Review – Wage Costs consultation paper – addendum, page 5.

<sup>2</sup> [ABS Monthly Employee Earnings Indicator – new data series sourced from Single Touch Payroll \(STP\) data.](#)

<sup>3</sup> [ABS Weekly Payroll Jobs – new data series sourced from Single Touch Payroll \(STP\) data.](#)

<sup>4</sup> [ABS Linked Employer-Employee Database \(LEED\)](#)

## Question 6

Do states support replacing imputed work experience and imputed work experience squared with 5-year age groups?

### **ACT Position**

The ACT supports the CGC replacing imputed work experience and imputed work experience squared with 5-year age groups.

The ACT notes applying an age-related dummy variable makes the model less complex, as recommended by Professor Preston, and would better capture age-earning profile than the imputation applied in the previous model. Previously, work experience was imputed as current age less an estimate of the worker's age when they completed their education. The CGC noted in the initial wage costs consultation paper that such an approach relied on the assumption that work experience-earning profiles are parallel across different education levels. The assumption is not supported by the empirical literature.<sup>5</sup>

## Question 7

Do states agree with the Commission's proposed criteria for including control variables in the model?

### **ACT Position**

The ACT broadly agrees with the CGC's proposed criteria for control variables: *sex, education, employment, age (5-year groups), person characteristics, occupation (broad), occupation (detailed), industry (broad), and usual hours*, noting answers to **Question 5**.

The ACT notes there are fewer control variables than included in the 2020 Review model or initially proposed. This is in line with Professor Preston's recommendation for the CGC to apply a parsimonious model to serve its 'practicality' principle. The variables have also been determined based on a sound approach. However, while there is a strong conceptual case that occupation would affect an individual's wages, the ACT queries the need to include both the *detailed-occupation* and *broad-occupation* variables in the model. Including the *detailed-occupation* variable only may better capture variation in earnings across occupation.

## Question 8

Do states support using a less complex model by replacing industry group categories with industry division categories and removing the interaction terms with gender and every other independent variable?

### **ACT Position**

The ACT supports the CGC using a less complex model for the wage cost assessment, replacing the 260 industry group categories with the 19 industry division categories as well as removing the interaction terms between gender and all other independent variables. The ACT considers this would curtail the overfitting issues, and would robustly capturing the wage structure across jurisdictions.

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<sup>5</sup> 2025 Methodology Review, Wage costs consultation paper, June 2023, Page, 16.



## **Question 9**

Do states agree with the proposed approach to combine estimates of relative differences in states' wages across years?

### ***ACT Position***

The ACT agrees with the CGC's proposed approach, which differs from the CGC 2020 Review approach, to combine estimates of relative differences in states' wages across years as initially proposed. The ACT considers this approach is sound and would provide stability in the GST distribution. This approach would effectively increase the sample size, and hence reduce the sampling variability, which would reduce the volatility in and improve the accuracy of the wage cost assessment.

As part of the consultancy work commissioned by the CGC on the wages assessment, Professor Preston recommended using pooled data over a moving three-year period. This was tested by the CGC, but it was still bias towards the sample survey as the sample size was effectively smaller compared with the CGC's proposed approach. Using the pooled data over a moving three-year period could still lead to biased estimates, particularly if there is a rapid change in certain industries or a dominant group being picked in the survey.

## **Question 10**

Do states agree that a 12.5 per cent discount remains appropriate?

### ***ACT Position***

The ACT does not support the continued application of the 12.5 per cent discount to the wage cost assessment after the improvements to model are made.

The proposed changes discussed above would improve the model's performance and reduce volatility. This will estimate the relative differences in states' wages across years better. Therefore, the ACT considers the 12.5 per cent discount will no longer be needed as this would unnecessarily further smooth the differences in wage structures across jurisdictions, bringing them closer the national average.