

2025 Commonwealth Grants Commission Methodology Review

Northern Territory response to Wages consultation paper

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1. Wage costs

1.1. Response to questions

Q1. Do states agree on continuing to use private sector wages as a policy neutral proxy for the market pressures faced by public sector employers?

The Territory agrees that continuing to use private sector wages for the wage cost assessment remains appropriate.

Q2. Do states agree that the Commission should continue to use all private sector employees to proxy for public sector drivers of costs?

The Territory agrees that the Commission should continue to use all private sector employees to proxy for public sector drivers of costs, noting issues around reducing sample size.

Q3. Do states support the continued use of the Characteristics of Employment survey data?

The Territory supports the continued use of the Characteristics of Employment survey data for the wage cost assessment, noting the lack of viable alternatives.

Q4. Do states agree the Commission should use hourly wages rather than weekly wages as the dependent variable?

The Territory agrees the Commission should use hour wages rather than weekly wages as the dependent variable.

Q5. Do states support including usual hours of work in the model as 3 categories, part-time, full-time and more than full-time hours?

The Territory supports including usual hours of work in the model as 3 categories.

Q6. Do states support replacing imputed work experience and imputed work experience squared with 5-year age groups?

The Territory supports replacing imputed work experience and imputed work experience squared with 5-year age groups.

Q7. Do states agree with the Commission's proposed criteria for including control variables in the model?

The Territory agrees with the Commission's proposed criteria for including control variables in the model.

Q8. 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?

The Territory supports replacing industry group categories with industry division categories and removing the interaction terms with gender and every other independent variable.

Q9. Do states agree with the proposed approach to combine estimates of relative differences in states' wages across years?

The Territory supports combining estimates of relative differences in states' wages across years as a way to reduce volatility in the wage cost assessment. The Territory's preference is to only use data from

current and previous years to generate estimates for each assessment year to minimise volatility caused by revisions between update years.

Q10. Do states agree that a 12.5% discount remains appropriate?

The Territory maintains that the wage cost assessment understates its wage pressures and discounting only compounds this issue.

1.2. Supporting considerations

1.2.1. Approach to combining estimates across years

The Territory agrees that there is currently significant volatility in the wage costs assessment and is supportive of the Commission's approach to pool all available data when regressing state wage differentials. A pooled approach will increase sample sizes and reduce year-on-year regression volatility.

The Territory supports regressing against the largest available data pool for the most recent year in an Update, however does not support an approach to pooling that results in revisions to regression outputs in earlier years. Each headline relativity in an Update is the average of three individual years' relativities, and the consultation paper is unclear on how data pooling would be implemented for each of the years within an Update.

The Territory does not support an approach to pooling that could result in revising or re-estimating prior years' regressions in an Update. Revising regression estimates for prior years will introduce volatility and offset improvements from the use of pooled data. Revising prior year regressions will also reduce transparency and obscure drivers of change analysis by rebasing relativities annually.

As such, the Territory considers that the additional volatility, opacity and complexity created if past years are revised, would outweigh potential accuracy gains from using additional data. The ability to clearly explain annual changes in relativities and understand trends both within and between Updates is of significant importance to key stakeholders.

The Territory otherwise supports the proposed changes set out in the Commission's consultation paper.