



Northern
Territory
Government

COMMONWEALTH GRANTS COMMISSION 2016 UPDATE – WAGE COSTS

Northern Territory Response to Staff
Discussion Paper CGC 2015-03S

September 2015

Introduction

The Territory welcomes the opportunity to contribute to the Commission's review of the Wage Costs assessment as part of the 2016 Update. Wages are an integral component of the cost of providing government services and as such, it is crucial that interstate differences in wage costs be accurately measured and assessed by the Commission in determining states' GST revenue needs.

The assessment of interstate wage differentials is particularly important for the Territory, which faces above-average wage costs due to influences such as the high cost of living, remoteness, high staff recruitment and retention costs and additional costs relating to Territory Government employees who are members of the Commonwealth Superannuation Scheme. The assessment adopted by the Commission in the 2010 Review recognised most of these influences, although limitations of the source data used, including the exclusion of non-wage remuneration, meant that not all costs were captured. The Territory sees this review as an opportunity not only to consider the suitability of new data, but also to address these long-standing deficiencies of the assessment.

This submission provides the Northern Territory's position on issues raised in Commission Staff Discussion Paper 2015-03S (the Discussion Paper). The Territory is comfortable with the majority of Commission staff's proposals; however, this submission has a primary focus on issues where this is not the case. We look forward to further engaging with the Commission on the more technical aspects of the Wage Costs assessment when the proposed source data from the Australian Bureau of Statistics' (ABS's) Characteristics of Employees (COE) survey becomes available later this year.

Wage Costs Assessment

The Territory:

- supports the conceptual case that there are interstate differences in wages paid to comparable employees and that these differences are influenced by factors beyond the control of states;
 - considers that interstate private sector wage differentials are an appropriate proxy for differences in public sector wages;
 - does not consider that there has been a convergence of interstate wages over time;
 - supports, in principle, the use of capital city wages in the assessment, with whole-of-state wages used for states where regional wages are higher than capital city wages; and
 - does not support the application of a 'wage relativity floor'.
- 1.1 The Territory supports the Commission's proposal to continue the Wage Costs assessment, as there remains a strong conceptual case that states pay different wages to comparable employees due mainly to non-policy influences, which has a firm grounding in evidence. In the Territory, these influences include remoteness relative to Australia's main population centres (which influences the levels of wages required to attract and retain staff) and payments to Territory Government employees who are members of the Commonwealth Superannuation Scheme, which is more generous than equivalent state schemes.
- 1.2 The conceptual case was established by the Commission in the 2010 Review and the Territory does not consider that there have been any major changes in public sector wage arrangements since then that invalidate the conceptual case. In fact, data provided by Commission staff in the Discussion Paper showing interstate wages paid to nurses, police and teachers is evidence that the conceptual case still holds.
- 1.3 The Territory has long supported the Commission's current methodology, which uses the wage level of the average private sector employee as a proxy for public sector wage differentials between states, as this approach is policy neutral, conceptually simple, well grounded in evidence and produces intuitive results.
- 1.4 In the 2015 Review, the Commission considered that the conceptual case underpinning the Wage Costs assessment still holds, as evidenced by data from the 2009 SET, which showed interstate differences in both public and private sector wages. However, the Commission also observed that the 2009 SET data suggested a weakening in the relationship between interstate private and public sector wage differentials. On this

basis, some states considered that the Wage Costs assessment should be discontinued. Despite this, the Commission stated that the relationship holds over time.

- 1.5 The Territory considers that the data available to date does show that overall, the relationship between interstate differences in public and private sector wages holds over time. It would have been premature for the Commission to discontinue the Wage Costs assessment in the 2015 Review based on the results of one survey that deviated slightly from the results of all other surveys before it.
- 1.6 In the Territory's view, sustaining the conclusion that the relationship between private and public sector wages is no longer strong enough to underpin the Wage Costs assessment would require stronger evidence and an alternative hypothesis, supported by evidence, which better explains persistent longstanding differences in state public sector wages.
- 1.7 In any case, the weakening of the relationship between private and public sector wages has implications for the data used in the Wage Costs assessment, rather than the existence of an assessment altogether. The fact that the correlation between private and public sector wages is weaker in the 2009 SET than in previous surveys does not mean that the disabilities previously accepted and assessed by the Commission have ceased to exist. The Territory continues to face location challenges beyond its control that have an impact on the wages it needs to pay its employees to enable the delivery of services to Territorians. Discontinuing the Wage Costs assessment would effectively ignore these challenges and significantly reduce the Territory's capacity to provide services to its residents, which is contrary to the Commission's equalisation objective.

Use of Private Sector Wages as a Proxy for Public Sector Wages

- 1.8 The Territory considers that private sector wages remain the most reliable available proxy for public sector wages. The Territory is not aware of any alternative, non-policy influenced data that could be used for the Commission's purposes.
- 1.9 As stated above, the Territory's view is that the 2009 SET results alone should not be considered reason enough to dismiss the appropriateness of using private sector wages as a proxy for public sector wages. In fact, there is a possibility that the observed weaker relationship between the two datasets in the 2009 SET compared to previous surveys could be reversed in future data sets, in which case a fundamental shift in the assessment of such a critical disability would not be warranted.
- 1.10 The Territory looks forward to providing further comments on this issue when the COE data becomes available.

National Market

- 1.11 Some states have argued that public sector wages are not affected by regional influences and are instead driven by national market pressures, resulting in the convergence of interstate wages.
- 1.12 The Territory observes that the latest available and fit-for-purpose data on this issue is the 2009 SET, which clearly shows that public sector wages vary between states and there has been no observable convergence of wage levels over the four SET surveys (1997 to 2009) considered by the Commission in the 2015 Review.
- 1.13 While the 2009 SET data is obviously dated, it is highly unlikely that there has been a significant shift towards interstate wage convergence since 2009. As Commission staff have observed, wage data for nurses, police and teachers between 2013 and 2015 shows that interstate differences in wages still exist.

Capital city and regional loadings

- 1.14 The Territory notes that Commission staff propose to assess wage costs on the basis of capital city wages, and that for states where regional wages are higher than capital city wages, the assessment would be based on the average whole-of-state wage level.
- 1.15 The Territory supports this approach in principle, subject to the suitability of the COE data for a disaggregated capital city/rest of state analysis of interstate wages.
- 1.16 Subsequent to releasing the Discussion Paper, Commission staff suggested that states undertake analysis of public service commission data on the wages paid to comparable employees in different locations within the state. The aim is to provide a clearer picture of whether wages paid to comparable employees in different locations in a state are the same (warranting an assessment based on capital city wages) or different (warranting an assessment based on whole-of-state wages). The Territory will endeavour to undertake this analysis if possible, with a view to providing the outcomes to the Commission later this year.

Wage relativity floor

- 1.17 Commission staff have sought states' views on the merits of an argument that there may be a floor to wage relativities, below which relative public sector wages cannot reasonably fall. This stems from Tasmania's argument that private sector wages are not reflective of the wage pressures faced by the public sector in that state.
- 1.18 In principle, the Territory is opposed to 'floors' or 'caps' to disabilities, as these are often arbitrary and dilute equalisation outcomes. The Territory opposes a wage relativity floor as it would require significant judgement on the appropriate level of the

floor, would add unnecessary complexity to the assessment and there is no evidence that it would enhance equalisation.

- 1.19 While the Territory is sensitive to the need to adequately account for differences in states' circumstances where this would enhance equalisation, the Commission should do so in a sound and robust manner. The Territory does not consider an arbitrary wage relativity floor to be an appropriate approach.

Other issues

- 1.20 In addition to the above issues, the Discussion Paper discusses a range of technical issues including the suitability of using regression modelling for the assessment and simplifying the regression model. These are issues that can best be considered in the context of the data available for the assessment and as such, the Territory will address these issues in a future submission following the release of the COE data.
- 1.21 A further issue that should be considered when the COE data is released is the extent to which it captures non-wage remuneration, such as employee housing and additional leave benefits. These components were not captured in SET data; however, they are essential for the attraction and retention of appropriately qualified staff in the Territory and should be reflected in the Commission's assessments.