



Northern
Territory
Government

COMMONWEALTH GRANTS COMMISSION 2016 UPDATE – WAGE COSTS ASSESSMENT

Northern Territory Response to Staff
Discussion Paper CGC 2015-05-S

December 2015

Introduction

This submission provides the Northern Territory's response to Commission Staff Discussion Paper 2015-05-S, regarding Commission staff's proposed approach to assessing interstate wage costs in the 2016 Update.

The Territory supports the majority of Commission staff's proposals, with the exception of the proposed continuation of the 12.5 per cent discount to the assessment. As the Territory has previously indicated, discounting is not an appropriate way of dealing with data concerns, as it is a one dimensional approach that assumes that the issue behind the discount results in an overestimation of disabilities across all states. Consequently, the Territory considers that the Wage Costs assessment should not be discounted.

Wage Costs Assessment

The Territory supports Commission staff's proposals to:

- use the 2009 Survey of Education and Training (SET) indexed forward for the 2012-13 and 2013-14 assessment years;
- use the Characteristics of Employees (COE) derived estimate for the 2014-15 assessment year;
- retain a whole-of-state approach to the assessment; and
- make no adjustment for state-specific influences.

The Territory does not support Commission staff's proposal to:

- continue to discount the assessment by 12.5 per cent.

1.1 The Territory supports the majority of Commission staff's proposals regarding the most appropriate approach to the Wage Costs assessment; however, the Territory remains opposed to the proposal to discount the assessment, as this potentially dilutes equalisation.

Data source for the assessment

1.2 The Territory supports Commission staff's proposal to measure interstate wage differentials using indexed SET data for the 2012-13 and 2013-14 assessment years and COE data for 2014-15, on the basis that this is the most appropriate way to balance the need for contemporaneity and stability in the Wage Costs assessment from one year to the next.

1.3 In the 2015 Review, the Commission decided to continue to base the Wage Costs assessment on data from the 2009 SET, indexed to the assessment years. This was considered to be the most appropriate approach pending the release of the COE survey and consideration of its suitability for the Commission's purposes.

1.4 The key concern for the Commission and the majority of states is the age of the SET data.

1.5 Consequently, Commission staff propose to use indexed SET data for the 2012-13 and 2013-14 assessment years and the COE data for 2014-15. Other options available are the use of ABS Employee Earnings, Benefits and Trade Union Membership (EEBTUM) data for 2012-13 and 2013-14 and COE data for 2014-15 or continuing to use indexed SET data for all the assessment years.

1.6 The Territory's preference is for indexed SET data to be used for 2012-13 and 2013-14, as this would be consistent with the approach taken in the 2015 Review and would

therefore ensure a level of consistency in the assessment of wage costs between the 2015 Review and the 2016 Update. The Territory is not convinced that replacing the indexed SET data with EEBTUM data would produce any material contemporaneity benefits.

- 1.7 For the 2014-15 assessment year, the Territory is comfortable with the use of COE data, as this will also ensure a level of consistency with future updates as COE data is phased into the Commission's assessments. Use of the COE data also meets the need for improved contemporaneity in the Commission's assessments.
- 1.8 Consequently, the Territory considers that the approach proposed by Commission staff, whereby indexed SET data is used for 2012-13 and 2013-14 and COE data used for 2014-15 is the most appropriate approach in the 2016 Update.

Capital city or whole-of-state assessment

- 1.9 The Territory supports Commission staff's proposal to base the Wage Costs assessment on whole-of-state rather than capital city wages, as this approach better reflects what states do.
- 1.10 In the 2015 Review, Commission staff proposed moving from the current approach, whereby interstate wage differentials are measured based on average wage levels across each state, to one based on wages in capital cities, with an adjustment for states in which regional wages are higher than capital city wages. This proposal stemmed from an observation that private sector wages, on which the assessment is based, are generally higher in capital cities than in regional areas. On this basis, Commission staff considered that it may be appropriate to base the assessment on capital city private sector wages, as this, in theory, would allow for recruitment across the state.
- 1.11 While there appears to be a reasonable theoretical basis for this proposal, the Territory does not consider that this reflects what states do. In particular, the observed differences in private sector wages paid to comparable employees in different parts of a state are not present in the Territory's public sector. Territory Government employees at the same level are paid the same base wages regardless of their location in the Territory. While additional entitlements and wage loadings are paid to employees in remote areas, the CGC's assessment system is designed to capture these additional costs in the Regional Costs assessment.
- 1.12 On this basis, the Territory agrees with Commission staff that there is no compelling empirical evidence to support a shift from an assessment based on whole-of-state wage differentials to one based on capital city wages.

State-specific adjustments

- 1.13 The Territory supports Commission staff's proposal not to apply any adjustments for state-specific influences, as there does not appear to be any compelling evidence that this would materially enhance equalisation.

Discounting the assessment

- 1.14 The Territory does not support Commission staff's proposal to continue to discount the Wage Costs assessment by 12.5 per cent, as there is no evidence that discounting is an appropriate way of addressing concerns about the reliability of the indexed SET and 2014 COE data.
- 1.15 In the 2010 Review, the Commission applied a 12.5 per cent discount to the Interstate Wages assessment, to reflect its concerns about how accurately the SET data measures wage costs, how accurately the econometric model underpinning the assessment controls for differences in productivity and how well private sector wages proxy wage pressures in the public sector.
- 1.16 The Territory considers that these concerns have largely been addressed by the introduction of the COE data. As Commission staff have stated, the COE is a more comprehensive and reliable source of data for the Commission's purposes than the SET. The Territory is not aware of anything to suggest that COE data does not accurately measure wage costs, or that the regression modelling used in the assessment is not suitable for the Commission's purposes. While we accept that the 2014 COE data is less than ideal due to the lack of education and qualification information as a result of a data processing failure at the ABS, this does not warrant the application of a discount, particularly given that Commission staff have indicated that they cannot confidently measure or predict the impact of the omission of education and qualification data on estimated wage costs in each state.
- 1.17 Consequently, the Territory considers that application of an arbitrary discount risks pushing the Wage Costs assessment further away from equalisation rather than closer to it.
- 1.18 However, should the Commission decide to proceed with a discount, the Territory is of the firm view that the discount should not be increased.