

# 2023 Update: Supplementary Consultation on Wage Costs

NSW Treasury Response

January 2023

## Acknowledgment of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

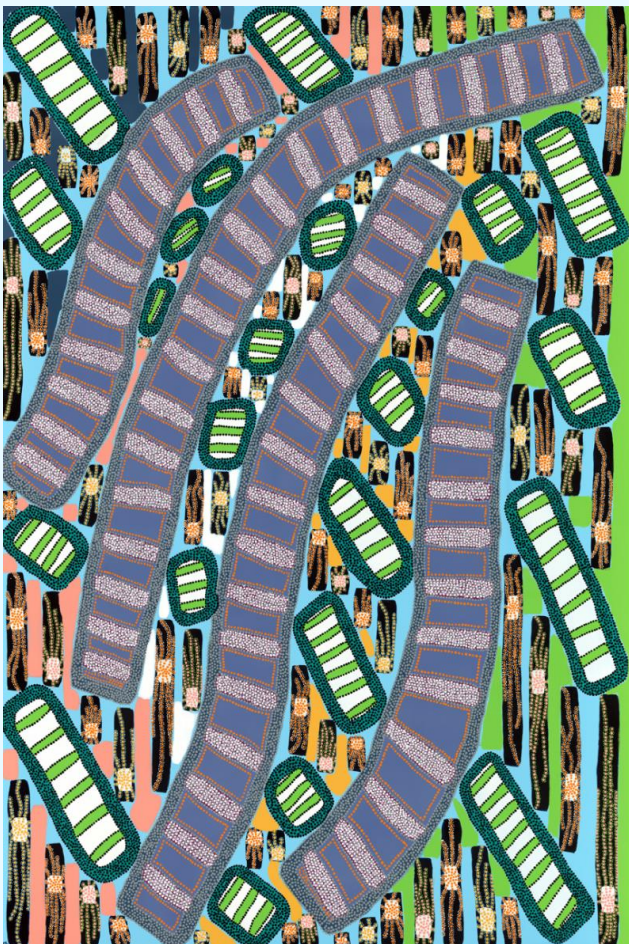
We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:

*Regeneration* by Josie Rose



## Wage Costs

- The wage costs regression model draws on the Characteristics of Employment survey and uses the variable ‘hours usually worked’ as a proxy for the hours a person is paid. The 2021-22 survey was conducted in August 2021 when many states were in COVID-19-related lockdowns.
- Conceptually, a lockdown would impact this variable as a significant number of people were unable to work their usual hours e.g. hospitality workers. The volatility of the wages data in 2021-22 for states that experienced lockdowns, in both direction and magnitude, supports this theory.
- For this reason, NSW Treasury does not support using the 2021-22 data without making an adjustment as this would introduce a significant bias in the relative wages between states in the 2023 Update.
- Of the two alternative methods put forward, NSW Treasury finds the proposal to remove identified respondents from the regression model (option 2) the more unacceptable of the two, as this approach risks removing important information from the model, affecting its explanatory power. As such, this is not a reasonable or robust adjustment.
- The proposal to use a more direct measure of the ‘hours used to calculate the most recent pay’ and ‘actual earnings on the most recent payslip’ (option 1) should be the better option. This model delivers greater explanatory power overall.
- Having said this, it is important to note that many of the state-level parameter estimates lack statistical significance – for both proposed alternatives as well as for the original model – calling into question the validity of the model per se, regardless of the variable used to measure hours.
- The model raises concerns more generally, including sensitivity of the estimates from year to year and whether this sensitivity is related to multicollinearity due to the very large number of controls included.
- While the use of option 1 is favoured for the 2023 Update, NSW Treasury would support further work to improve the robustness of the model as part of the 2025 Methodology Review.
- At this time, NSW Treasury only supports a method adjustment for the 2021-22 assessment year, given the premise for a change is due to a specific economic shock. Should additional information come to light regarding future datasets, these can be addressed as part of the 2024 Update or 2025 Review and retrospective adjustments made, if required.

### NSW position

- Use a more direct measure of the ‘hours used to calculate the most recent pay’ and ‘actual earnings on the most recent payslip’ in place of ‘hours usually worked’ for the 2021-22 assessment year.
- Support the CGC improving the robustness of the model as part of the 2025 Methodology Review.

Sydney NSW 2000

GPO Box 5469  
Sydney NSW 2001

W: [treasury.nsw.gov.au](https://treasury.nsw.gov.au)

This publication is protected by copyright. With the exception of (a) any coat of arms, logo, trade mark or other branding; (b) any third party intellectual property; and (c) personal information such as photographs of people, this publication is licensed under the Creative Commons Attribution 3.0 Australia Licence.

The licence terms are available at the Creative Commons website at:  
[creativecommons.org/licenses/by/3.0/au/legalcode](https://creativecommons.org/licenses/by/3.0/au/legalcode)

NSW Treasury requires that it be attributed as creator of the licensed material in the following manner: © State of New South Wales (NSW Treasury), (2022).

