

Wage data – consultation paper

Queensland submission

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**Queensland
Government**

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Introduction and context

Since 2004, the Commission has used a regression of private sector wage levels to produce a policy neutral measure of the relative public sector wage costs in each state.

The regression draws upon the Characteristics of Employment survey (conducted every August) which predicts a person's pay based on a range of attributes (occupation, industry, sex, migrant status, state etc).

Usual hours worked is one of the variables used in the regression. The Commission considers that for permanent employees this does not affect their salary but for casual employees, where hours of work may vary, this is seen as a reasonable proxy for the hours they are paid and are included in the model on this basis.

The Commission has advised that the most recent survey and latest results are based on data from August 2021, and may have been affected by COVID-lockdowns. Five States were in lockdown at this time (NSW, VIC, Qld, ACT and NT). The Commission observed the latest estimates for wage cost factors for 2021-22 show a high level of volatility and have indicated that consideration may need to be given to adjusting the data or methodology used to address this issue.

The Commission proposes two options to address the issue it has raised and a separate option to leave the data unadjusted:

- Option 1 – use an alternative measure of hours worked in the wage calculations. This alternative measure uses the concept of paid hours, or the average weekly hours worked in the most recent pay period. This may be the previous week, fortnight or month, depending on what period their payslip refers to, converted to hours per week.
- Option 2 – adjust the ABS data to remove from the August 2021 regression model the 12% of private sector employees included in survey results whose reason for working fewer than their usual hours was because there was no work, not enough work, they were stood down or for 'other reasons'. The Commission believe these reasons closely correlate with the impact of lockdowns.

The Commission highlight some significant practical constraints related to Option 1, including the difficulties in ensuring a sufficiently robust approach in the time available for the 2023 Update and that such a change could potentially be viewed as a change in method and, therefore, more appropriately considered in a methodology review.

In relation to Option 2, the Commission outlines that this approach has the advantage of maintaining a consistent method with earlier assessment years and removing bias in the model caused by individuals whose working hours were affected by lockdowns. However, the Commission also highlight that, compared with using the unadjusted data, this approach potentially removes data that would have brought relevant information to the regression, with a significant reduction in hours worked potentially associated with some downward pressure on wages.

Queensland position:

Proposed Adjustments

Queensland supports incorporating the 2021-22 data into the wage model without any of the adjustments proposed under either Option 1 or 2, as the need for an adjustment has not been clearly established, and there is significant risk, given timeframes, that the full consequences of either proposed adjustment cannot be fully assessed.

The consultation paper highlights '*significant movements in measured wage levels*' as reasoning for proposed adjustments. However, the wage assessment has always historically been characterised by significant volatility with large absolute differences from year to year (as Figure 2 in the consultation paper shows).

In particular, in the previous year (2020-21), the measure resulted in a large movement in wages for Queensland and several other states. It is noted that this result included an adjustment the Commission made to remove the impacts of Jobkeeper from the wage assessment.

The three year averaging applied to the wage assessment is specifically designed to reduce the impacts of a single year outcome on the results, so no further adjustment should be needed. A 12.5% discount has also been applied to this assessment reflecting concerns around the accuracy with which the data measures wage costs.

If, despite the clear limitations in the adjustment options proposed, the Commission decides that an adjustment to the 2021-22 data is nevertheless warranted, Queensland would support the approach of removing respondents who worked fewer than usual hours for lockdown related reasons (Option 2).

Should these respondents be considered a potential source of bias then removing them from the assessment would be considered a more appropriate option than the proposal of introducing an alternative measure of hours that has not been appropriately tested.

Queensland does not support making an adjustment based on using an alternative measure of hours worked (Option 1). In particular this approach is not considered appropriate for the following reasons.

- The consultation paper and multi-lateral discussion provide detail on how the proposed alternative measure is defined but has been unable to provide regression results for specific indicators without ABS approval, which it has indicated are unable to be provided on short notice. Queensland is therefore unable to assess its appropriateness.
- The Commission does not state how the new regression results will be assessed for robustness. This is not stated in the paper. It is unclear how the Commission will undertake appropriate statistical tests on the new proposed regression results, whether there are other sources of wages data, e.g. the Labour Cost Index, which can be used to independently verify the robustness of the regression results.
- Given these concerns the short timeframes available to make this change would mean that there cannot be assurance of a robust and appropriate adjustment with the consequences of this fully understood.

For completeness, Queensland strongly does not support any consideration of carrying forward survey data from 2020-21 instead of using the 2021-22 data, or any variation using previous years data as a substitute for 2021-22.

Given the substantial volatility in previous years' data, in particular 2020-21 data for Queensland compared with previous years, it is considered more appropriate to use the most contemporaneous data (consistent with one of the key principles of the HFE methodology), and/or apply appropriate data adjustments, if required.

Any reliance on using previous years' data would not be appropriate, given this approach would improperly compound the potentially substantial impacts of the volatility seen in previous years and not appropriately consider the other important information reflected in the 2021 data given changes in labour market conditions and wage conditions since 2020.

Years affected

If an adjustment is determined by the Commission to be necessary, Queensland supports making any adjustment only for the 2021-22 year, with no other adjustments made to past data, consistent with past practice by the Commission.

The Commission had previously made an adjustment to the 2020-21 data to remove employees receiving JobKeeper, which was identified by the Commission at that time as an appropriate adjustment. Any further adjustments applied to the 2020-21 data would complicate the model and potentially duplicate the impact of the adjustments already made, which may have unpredictable effects on state results.

Queensland further supports the need for any wage adjustments being limited to the 2023 update only, with any similar or associated issues being freshly considered, with appropriate time for states to consider, as part of the 2024 Update, given the short timeframes within which this issue has been raised for consideration as part of the 2023 Update.

Other matters

Queensland recommends that the wage assessment be subject to a full review as part of the 2025 methodology review. As established above, the results from this assessment continue to exhibit a high degree of volatility. This assessment is also based on the assumption that private sector wages are an appropriate proxy for public sector wages, which in Queensland's view has not been conclusively established.

Queensland does not support any further delay of the 2023 Update to further develop or test any alternative approach to measuring hours worked, given the need for clarity and certainty for states as to the outcomes of the 2023 Update, and noting the process is already somewhat delayed.

