

Commonwealth Grants Commission Wages Data Consultation Paper

Tasmanian Government Submission

January 2023

Introduction

This Submission responds to the Commonwealth Grants Commission's (Commission) request for state views on whether the underlying data used to calculate the wage costs factor for each state provide an appropriate basis for applying the Commission's method of estimating states' relative wage costs.

Commission Position

In order to produce a policy neutral measure of relative public sector wage costs, the Commission uses a regression of private sector wage costs in each state. This regression draws on the ABS Characteristics of Employment Survey (CoES). The Commission has identified that there is an unusual amount of volatility in the CoES 'hours usually worked' data for 2021-22, with a high number of survey respondents that worked less than their usual hours of employment. The Commission considers the reasons provided for the reduction in hours worked are consistent with COVID-19 lockdown impacts.

Noting that 'hours usually worked' is an important variable in the regression the Commission uses to estimate wage costs factors, the Commission is concerned that using the 2021-22 wages data in its model will create a significant bias in relative wage costs for the 2023 Update, and has proposed two alternative options for adjusting the data:

- using an alternative measure of hours worked, such as actual hours worked, or hours of work used to calculate most recent pay, to replace 'usual hours' worked in the model; or
- adjusting the ABS data to remove respondents who worked fewer than their usual hours because there was no work, not enough work, they were stood down, or 'other reasons'.

Tasmanian Position

As a result of the short period of consultation on this issue, the timeframe for states to undertake analysis required to test the robustness of the proposed approaches has been limited. Tasmania would welcome the opportunity to revisit this issue in the 2024 Update or as part of the 2025 Methodology Review, should the Commission consider the suitability of the underlying wages data remains an issue that impacts on the calculation of states' relative wage costs.

Tasmania notes the Consultation Paper is not explicit on whether adjustments will be made for only the 2021-22 year or for all assessment years. Should the Commission choose to make adjustments and noting only 2021-22 data appears to be affected, this Submission assumes that any adjustments will only be made to that year of data, with wage cost factors for the remaining assessment years calculated in accordance with the 2020 Review Methodology.

With regard to the first alternative proposed, the Commission has indicated that the CoES also collects information on actual hours worked or hours used to calculate the most recent pay, which may be appropriate to use as an alternative measure in the wage costs factor model. Tasmania notes that while actual hours worked may be a useful measure in

estimating pay for casual employees, it is likely to be more limited when estimating pay for salaried employees. Accordingly, the Commission would need to be satisfied that using this data as an alternative measure is sufficiently robust in capturing the relationship between the hours an employee was working at the time of the 2021-22 CoES survey and their pay. Tasmania notes the Commission has raised some concerns about its ability to test the robustness of this measure in the timeframes available. Further to this, states have not been able to undertake their own analysis to understand the suitability of the proposed measure. Tasmania would be concerned about implementing any proposal to apply adjustments to underlying data without sufficient evidence of robustness.

The second alternative approach the Commission has proposed is to remove the private sector employees who worked fewer than their usual hours due to 'lockdown consistent' reasons. This will result in around 12 per cent of observations being removed from the regression. The Commission considers that this would remove the estimated impact of lockdown affected workers on wage levels.

However as noted in the Consultation Paper, this approach may also remove some data that would have brought relevant information to the regression. Tasmania is concerned that in addition to reducing sample size, the removal of observations from the wages data has the potential to introduce another bias by removing data that may explain downward pressure on wages due to non COVID-19 lockdown reasons. Accordingly, Tasmania is concerned that this approach may not result in an overall improvement in the accuracy of the calculation of each state's wage costs factor.

Tasmania accepts that on the basis of the information provided by the Commission in its Consultation Paper, the 2021-22 ABS CoES data is likely to include COVID-19 impacted data. However, Tasmania notes there are practical limitations associated with both alternatives proposed and that the compressed timeframes for the Commission's consideration of this issue have limited its ability to test the robustness of these alternatives. Accordingly, Tasmania has concerns about the appropriateness of adjusting the 2021-22 wages data.

Tasmania notes that the 2020 Methodology Review provides for a 12.5 per cent discount to the wages expense method, based on concerns about how accurately the data measures wage costs. Given the Commission's concerns with the underlying wages data for 2021-22 appear to magnify these concerns, Tasmania proposes that the Commission consider incorporating the 2021-22 wages data in its wage costs regression but increasing the discount on the wages cost assessment. Given the lack of certainty associated with the robustness of the alternatives discussed in the Consultation Paper, Tasmania considers this may be more suitable as an alternative option to mitigate the impact of COVID-19 lockdowns on the data.