

19/01/2023

CM REF: D23/6322

Victorian response to 2023 Update New Issues: Wages costs

January 2023

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne Victoria 3002
Australia
Telephone: +61 3 9651 5111
dtf.vic.gov.au

Authorised by the Victorian Government
1 Treasury Place, Melbourne, 3002

© State of Victoria 2023



You are free to re-use this work under a [Creative Commons Attribution 4.0 licence](#), provided you credit the State of Victoria (Department of Treasury and Finance) as author, indicate if changes were made and comply with the other licence terms. The licence does not apply to any branding, including Government logos.

Copyright queries may be directed to IPpolicy@dtf.vic.gov.au

If you would like to receive this publication in an accessible format please email information@dtf.vic.gov.au

This document is also available in Word and PDF format at dtf.vic.gov.au

Wages data adjustments

Introduction

On 13 January 2023 the Commonwealth Grants Commission (CGC) provided states with a consultation paper: 2023 Update – seeking state views on wages data. This submission responds to that paper.

The CGC has identified an unusual degree of volatility in the Australian Bureau of Statistics (ABS) Characteristics of Employment Survey (CoES) wages data, with accompanying evidence that suggests COVID-19 lockdowns have affected the data.

CGC view

The CGC has three proposals on how to treat this issue. These are:

1. make no adjustments;
2. use an alternative measure of hours worked, replacing usual hours worked with hours used to calculate the most recent pay; or
3. adjust the ABS data to remove respondents who worked fewer than their usual hours for 'lockdown-consistent reasons', due to no work, not enough work, they were stood down or 'other reasons'.

DTF recommendation

Victoria reiterates its previously cited concerns with the wages cost regression used by the CGC to determine public sector wage costs. Victoria looks forward to working with the CGC further to resolve these concerns through the expected forthcoming 2025 methodology review process.

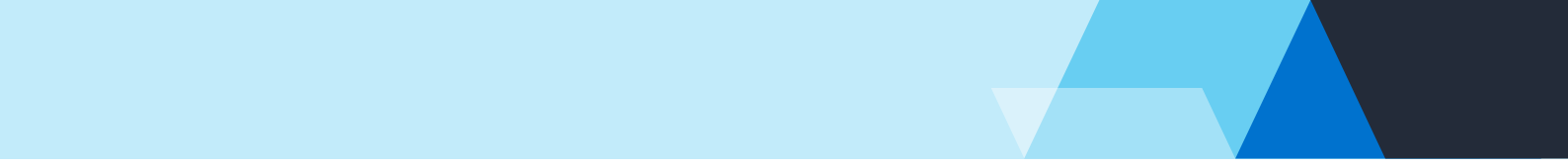
Victoria supports the CGC making an adjustment to the wages cost data to manage the impact of the data issue for the 2021-22 assessment year. Victoria believes the CGC has provided sufficient evidence that leaving the data unchanged is not a viable option, as it creates significant volatility and bias in the regression. Victoria supports a change to the 2021 data for the 2021-22 assessment year, to resolve the identified data issue with COVID-19 lockdowns.

The CGC has provided evidence that lockdowns have caused sufficient bias in the model to warrant adjustment. Given that Victoria was in lockdown during the collection of the CoES 2020 data, the CGC should also consider using this approach retrospectively for the 2020-21 assessment year as Victoria's wages cost estimate may be biased.

If the CGC can be confident it is robust, Victoria's preferred approach is the alternative measure of hours worked, hours to calculate the most recent pay. This measure appears to resolve the COVID-19 lockdown related issues raised by the CGC, while also being appropriate for permanent employees.

If this option is not practical in the time provided, Victoria supports removing respondents who worked fewer than their usual hours due to lockdown consistent reasons.

Victoria highlights that there was limited time provided to states to properly analyse proposals from the CGC or propose alternatives.



To manage the short timeframes the CGC and states were given to respond to this issue and to reflect the lack of reliability with the assessment exacerbated by COVID-19 influenced data, Victoria recommends that the discount on the wage costs assessment be further increased from 12.5 per cent to 25 per cent for all COVID-19 impacted CoES years, 2020-21 and 2021-22.

