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EMPLOYEE MOBILITY

A question often asked of human resources professionals and line managers when transferring employees is: will I be compensated for an increased cost-of-living in the new location? While cost-of-living and housing allowances are commonly a part of an expatriate's salary package, they are less common for domestic transfers.

However, while cost-of-living allowances are less common for domestic transfers, it can be useful to have market evidence to demonstrate to employees the differentials between locations within Australia and New Zealand.

This section provides cost-of-living and home rental cost differentials for nine Australian and New Zealand cities.

Employers should be wary of compensating a domestically transferred employee for cost-of-living and home rental differentials with an allowance, for the following reasons:

- **It is difficult to remove the allowance an employee already enjoys** – it is likely with a domestic relocation that the move may become permanent, and it may be difficult to remove the allowance at some point in the future
- **Internal equity** – issues of internal equity may arise where employees at the same level as the transferred employee in the new location become aware that their colleague enjoys an additional allowance to which they do not have access
- **Market rates of pay** – as a cost-of-living index is applied only to the spendable income component of the employee's salary, the final salary (including the allowance) may be less than the market rate in the new location. Consider for example, an employee transferred from Perth to Sydney, where the cost-of-living allowance (as a dollar figure) would be less than the market salary differential. Paying local market rates for the new location may be more beneficial for the employee, and reduce administration for the employer.

COST-OF-LIVING DIFFERENTIALS BY CITY

The Mercer *Cost-of-Living Index* analysis is designed to measure the differences in cost-of-living that business people and their families encounter when transferred, either domestically or internationally.

Cost-of-living differences are measured by comparing prices of a basket of goods and services at three different pricing levels. The Mercer international basket is composed of around 300 products and services representative of those consumed in a typical household, including:

- Food at home
- Alcohol and tobacco
- Domestic supplies
- Personal care
- Clothing and footwear
- Home services
- Utilities
- Food away from home
- Transportation
- Sports and leisure.

EMPLOYEE MOBILITY

Mercer's *Cost-of-Living Surveys* are conducted twice a year in over 350 cities around the globe. The surveys are completed simultaneously for all locations, permitting real comparisons between cities. The stores are carefully selected to reflect only those outlets where expatriates are able to purchase goods and services of an international quality.

Table 18 allows comparison of the cost-of-living between a base city and a host city. For example, the cost-of-living in Melbourne is 2% less than that of Sydney (Sydney – **base**, Melbourne – **host**).

TABLE 18 COST-OF-LIVING DIFFERENTIALS*

	To (Host)										
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra	Darwin	Auckland	Wellington	Christchurch	Dunedin
Sydney		-2%	-5%	-4%	-5%	-5%	-6%	-17%	-18%	-20%	-22%
Melbourne	2%		-3%	-3%	-3%	-3%	-4%	-15%	-17%	-18%	-21%
Brisbane	5%	3%		1%	0%	0%	-1%	-13%	-14%	-15%	-18%
Adelaide	5%	3%	-1%		0%	-1%	-2%	-13%	-14%	-16%	-19%
Perth	5%	3%	0%	0%		-1%	-2%	-13%	-14%	-16%	-19%
Canberra	5%	4%	0%	1%	1%		-1%	-12%	-14%	-15%	-18%
Darwin	7%	5%	1%	2%	2%	1%		-12%	-13%	-14%	-17%
Auckland	21%	18%	15%	15%	15%	14%	13%		-2%	-3%	-7%
Wellington	22%	20%	16%	17%	17%	16%	15%	2%		-2%	-5%
Christchurch	24%	22%	18%	19%	19%	18%	17%	3%	2%		-4%
Dunedin	29%	27%	23%	23%	23%	22%	21%	7%	6%	4%	

* The mean-to-mean index has been used for the differentials displayed in table above. The Index compares mean prices (average price of each item) in the host city. Data is current as at March 2013.

EXAMPLE

Joanna is married with two children. She is being transferred from Brisbane to Melbourne. She earns an annual gross income of \$170,000. Looking at Mercer Annual Spendable Income Table, Joanna's total spendable income is estimated at \$92,412.

With reference to Table 18, the cost-of-living differential can be applied by looking at the city Joanna is leaving, Brisbane (base city) against the city she will be transferred to, Melbourne (host city). The cost-of-living differential can be seen to be 3%. This signifies that the cost-of-living in Melbourne is 3% higher than the cost-of-living in Brisbane.

Therefore, if Joanna transferred from Brisbane to Melbourne, her cost-of-living would increase by \$2,772, taking Joanna's estimated spendable income from \$92,412 to \$95,184.

$$\$92,412 \times 3\% = \$2,772$$

However, if Joanna was to be transferred from Melbourne to Brisbane, the cost-of-living would consequently decrease by \$2772, resulting in an estimated spendable income of \$89,640.

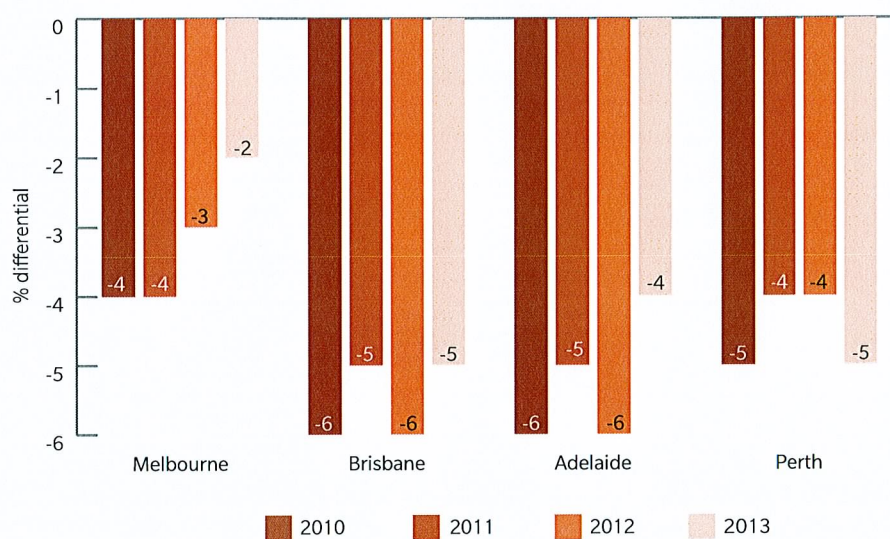
$$\$92,412 \times -3\% = -\$2,772$$

EMPLOYEE MOBILITY

Figure 2 illustrates historical cost-of-living differentials for four cities, using Sydney as the base city. It can be seen that Melbourne has the second most expensive cost-of-living, followed by Adelaide.

In New Zealand, Auckland has the most expensive cost-of-living. Darwin and Canberra are the least expensive of the Australian cities surveyed, and Dunedin is the least expensive of the New Zealand cities.

FIGURE 2 COST-OF-LIVING DIFFERENTIALS BY CITY – BASE CITY, SYDNEY



EMPLOYEE MOBILITY

HOME RENTAL DIFFERENTIALS BY CITY

The home rental differential compares the cost of renting apartments and houses in major cities across Australia and New Zealand.

Table 19 displays home rental differentials between 11 cities, allowing comparison from a base city and a host city. This table gives an indication of the differences in the cost of renting an apartment or house in affluent suburbs across the 11 cities surveyed in our *Cost-of-Living Survey*. Where an organisation provides a housing allowance to transferred employees, this analysis enables them to estimate the likely cost differential if an employee was to relocate and rent accommodation of a similar standard in a different city.

TABLE 19 HOME RENTAL DIFFERENTIALS

To (Host)											
From (Base)	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra	Darwin	Auckland	Wellington	Christchurch	Dunedin
	Sydney	-21%	-26%	-46%	-14%	-32%	-52%	-51%	-59%	-75%	-69%
	Melbourne	27%	-5%	-32%	9%	-13%	-30%	-27%	-38%	-55%	-61%
	Brisbane	37%	7%	-29%	14%	-6%	-21%	-21%	-34%	-59%	-57%
	Adelaide	94%	52%	42%	62%	37%	-4%	16%	-2%	-27%	-38%
	Perth	19%	-6%	-12%	-38%	-18%	-32%	-31%	-42%	-56%	-63%
	Canberra	51%	18%	7%	-26%	23%	-12%	-15%	-29%	-56%	-54%
	Darwin	81%	43%	27%	-10%	47%	14%	3%	-18%	-37%	-46%
	Auckland	80%	38%	28%	-13%	47%	20%	-3%	-15%	-47%	-45%
	Wellington	117%	66%	52%	4%	74%	41%	23%	20%	-26%	-35%
	Christchurch	196%	123%	108%	37%	132%	97%	59%	62%	38%	-11%
	Dunedin	231%	159%	135%	63%	170%	121%	87%	83%	54%	12%

APPLYING THE HOME RENTAL DIFFERENTIAL

To find the rental accommodation differential between two cities, identify the city the employee will be moving **from** (base) and the city the employee will be moving **to** (host) (Table 19).

EXAMPLE:

Jane is being transferred from Adelaide to Canberra and currently pays \$1,200 per month in rental accommodation. To estimate the difference in rental cost of equivalent accommodation in Canberra:

$$\$1,200 \times 37\% = \$444$$

It would be reasonable to assume that equivalent accommodation in Canberra would cost Jane approximately \$1,644 per month (\$1,200 + \$444 = \$1,644).

The areas surveyed within the 11 cities are:

Sydney	Annandale, Alexandria, Balmain, Bondi, Crows Nest, Glebe, Leichardt, Randwick, Chatswood, Castle Hill, Pymble
Melbourne	Balwyn, Doncaster, Kensington, Caulfield, Cheltenham, Bentleigh, Brunswick
Brisbane	Red Hill, Chapel Hill, Ashgrove, Morningside, Yeronga, Taringa
Adelaide	Lockleys, Athelstone, Mawson Lakes, Golden Grove, Blackwood Hills, Hyde Park
Perth	Hillarys, Karrinyup, Riverdale, Scarborough, Victoria Park, South Perth
Canberra	Gungahlin, Woden Valley
Darwin	Rapid Creek, Nightcliff, Jingili, Moil
Auckland	Mt. Eden, Epon, Greenlane, Ellerslide
Wellington	Karori, Johnsonville, Tawa
Christchurch	Ilam, Burnside, Linwood
Dunedin	Waverley, Dunedin North

DARWIN COST OF LIVING DATA - MARCH 2014

10 June 2014

Mercer's Cost of Living Surveys are designed to measure the differences in Cost of Living between specified cities.

The Mercer survey covers over 300 major cities around the world and each one of these cities can be used as a base city and can be compared to any other city (host city) by applying any of the following indices.

	Mean-to-Mean	Efficient	Convenience
Description	•Compares the mean prices (the average of the price range of each item) in the base city to the mean prices (the average of the price range for each item) in the host city.	•Compares the average of the low and median price level in the base city to the average of the price range in the host city	•Compares the average of the low and median price level in the base city to the highest prices for selected categories or items in the host city
Comparison	•This index is not biased in any direction and gives a good indication of overall price levels in the two cities	•11% higher than the mean to mean	•20% higher on average than the mean-to-mean index
Properties	•It is reversible. If Singapore is 100 and Tokyo is 120, then when Tokyo is 100 Singapore is 83 (=100/120)		•It allows the expatriate to purchase food, beverages, domestic supplies, personal care, sports and leisure items at more expensive or convenience stores.
Use of this index	•This index is the best indicator of overall differences in prices between two cities as it compares the average of the price range for each item both at home and abroad.	•This index may reflect cost of living differentials as they should apply to very experienced shoppers in their home city and who, due to the nature of the assignment, may not develop the same level of efficiency in the city where he/she is being transferred to.	•This index can be used in locations where even the slightest bit of adaptation is not always evident, or where shopping convenience is essential

Mean Base City to Mean Host City

This index compares:

the mean prices (the average of the price range of each item) in the base city
to
the mean prices (the average of the price range for each item) in the host city

As a result this index is not biased in any direction and gives a good indication of the overall price levels in the two cities. This index is the best indicator of overall differences in prices between two cities as it compares the average price range for each item both at home and host cities.

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An important feature of this index is that it is reversible. In other words, if New York is 100 and London is 121, then when London is 100 New York is 83 (100/121).

The paradoxical situation to say London being more expensive when compared to New York, and New York being more expensive when compared to London is not possible. It is particularly suitable when standards of living are similar between both cities and the aim is to equalize the purchasing power of the employee.

It is using this index that we analysed cost of living differentials between Darwin and other Australian capital cities. The results of this analysis are provided in the Table below:

Table: Cost of Living Comparison, March 2014 Survey Results

Index Categories	DARWIN	SYDNEY	MELBOURNE	PERTH	ADELAIDE	BRISBANE	CANBERRA
		M / M	M / M	M / M	M / M	M / M	M / M
1) Food at Home	100	97	97	96	95	95	98
2) Alcohol and Tobacco	100	100	106	100	102	101	98
3) Domestic Supplies	100	106	109	102	107	103	100
4) Personal Care	100	102	95	98	100	104	97
5) Clothing and Footwear	100	117	117	109	111	110	105
6) Home Services	100	99	93	93	88	92	96
7) Utilities	100	125	118	115	118	102	110
8) Food away from home	100	118	112	105	97	108	95
9) Transportation	100	96	101	94	99	96	99
10) Sports and Leisure	100	110	111	112	101	112	108
Total Index	100	107	105	103	101	104	100

According to the Mercer Cost of Living Index, there are marginal differences in the cost of living between the nominated cities. Sydney reflects the highest differential in that cost of living is 7% higher than Darwin.