



## Policy costing

### Cut the government contracts of the big four accounting firms and restore jobs to the public service

Party:

Australian Greens

Summary of proposal:

The proposal has two components.

- Component 1 – Lift wage growth and restore staffing levels
  - Element 1 would lift wage growth for staff in general government sector departments and agencies, excluding military and reserves staff, over the next four years. After this time, wages would return to their projected growth. Over the next four years wage growth would increase to:
    - ◆ 4 per cent per year for all Australian Public Service (APS) level and Executive Level (EL) staff
    - ◆ 2 per cent per year for all Senior Executive Service (SES) staff.
  - As part of this element, efficiency dividends on these wages would be removed.
  - Element 2 would restore total ongoing staff numbers under the *Australian Public Service Act 1999* (the Act) to 153,473 full-time equivalent employees, the same as at the end of 2011-12.
    - ◆ The increase in ongoing staff would occur in equal stages over a four-year period, with ongoing staff numbers growing by the same rate as population growth thereafter.
  - Element 3 would remove the average staffing level cap which maintains staff in the general government sector, excluding military and reserves, at or below their 2006-07 level of 167,596.
- Component 2 – Restrict expenditure on labour-hire companies and some contractors
  - Element 1 would shift expenditure from labour-hire companies to general APS departmental funding. Labour hire would be allowed in exceptional circumstances.
  - Element 2 would impose a cap of 7.5 per cent of current projected agency-by-agency expenditure for consultancy contracts and non-consultancy contracts, where labour is procured directly by a Commonwealth Government entity or through on-hire labour firms. The Australian Renewable Energy Agency and Clean Energy Finance Corporation would be exempt.

The proposal would have effect from 1 July 2019.

## Costing overview

This proposal would be expected to decrease the fiscal and the underlying cash balances by \$9,084 million over the 2019-20 Budget forward estimates period. This reflects an increase in departmental expenses of \$11,470 million, partially offset by an increase in revenue of \$2,386 million.

Departmental expenses under the proposal comprise employee costs and expenditure on contractors. Offsetting revenue under the proposal is personal income tax and superannuation contributions tax associated with wage increases and additional staffing numbers.

The proposal would have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications of the proposal over the period to 2029-30 is provided at [Attachment A](#).

The estimates are sensitive to the assumption that the structure and composition of Commonwealth Government agencies and the APS would remain constant over time, and to growth in wages and population growth. Estimated savings from the cap on consultancy contracts and non-consultancy contracts are sensitive to changes in the level of baseline departmental expenditure and projections of expenditure on contracts over time, which can vary significantly between years.

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-761	-1,513	-2,739	-4,072	<b>-9,084</b>
Underlying cash balance	-761	-1,513	-2,739	-4,072	<b>-9,084</b>

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

## Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

### Component 1: Lift wage growth and restore staffing levels

- The additional staff hired under Component 1 would otherwise be employed and paying personal income tax at the equivalent amount to baseline remuneration amounts for the APS.
- The composition of staff classifications at each APS level, Executive Level and SES level would remain constant at their 2017-18 proportions under the baseline and proposal.
- The salary of staff at each classification is the median base salary per level.
- Trend growth in wages under the baseline would be in line with wage cost index 3.
- All affected employees would receive superannuation contributions equivalent to 15.4 per cent of income earned.
- Employing additional APS staff would not result in additional departmental expenses other than the usual costs of employing staff.

### Component 2: Restrict expenditure on labour-hire companies and some contractors

- The shift in expenditure on labour-hire companies to general APS funding with labour hire allowed in exceptional circumstances would not have any financial implications for the Commonwealth Government.
- Contracts subject to the cap of 7.5 per cent of agency expenditure under Component 2 would be consultancy and non-consultancy contracts for Management and Business Professionals, and Administrative Services as classified under the United Nations Standard Products and Service Code.

- Under the baseline, expenditure on these contracts by agency in 2018-19 would be the average level for that agency from 2014-15 to 2017-18 and would remain constant in real terms over the period to 2029-30.
- For each affected agency, expenditure over the period 2022-23 to 2029-30 would grow at the average of projected annual growth over the 2019-20 Budget forward estimates period.
- Only half of the savings from the cap on contractors would be achieved in the first year of the proposal as agencies would have existing contracts in place.

## Methodology

The financial implications of this proposal are the sum of the financial implications of Components 1 and 2. At the agency level, there are instances where the proposal would result in a net reduction in agency resourcing due to the savings arising from Component 2 being greater than the increased funding that would be provided as a result of Component 1.

General government sector agencies under the proposal are those published in the 2019-20 Budget Paper No. 4. Agencies under the Act are a subset of the general government sector and are those identified in the APS agency listing published by the Australian Public Service Commission.

### Component 1: Lift wage growth and restore staffing levels

- The financial implications of Component 1 were estimated by taking the difference between the proposed and baseline remuneration expenditure amounts, incorporating increases in staffing levels.
  - Remuneration expenditure under the proposal was estimated by growing salaries by the specified increases under the proposal. Remuneration increases were applied after removing efficiency dividends as specified in the proposal.
  - Baseline remuneration expenditure was grown by estimated wage cost factors adjusting for the applicable efficiency dividend amounts.
- The increase in staff under Element 2 was then calculated by estimating the number of additional ongoing staff needed to result in a head count of 153,473 full-time-equivalent staff at the end of 2022-23. The increase was spread in four equal increments from 2019-20 to 2022-23 and grown by population growth in subsequent years as specified.
- The number of staff under Element 3 was estimated by lifting the cap on employee numbers after lifting the cap on APS agency staff in Element 2.
- The revenue impact of Component 1 was calculated by applying the 2019-20 Budget personal income tax schedule (including the low and middle income tax offset and the Medicare levy) to the difference in the total salary expense under current arrangements and under the proposal for each classification level. Additional tax raised on increased superannuation contributions was also included.

### Component 2: Restrict expenditure on labour-hire companies and some contractors

- The amount saved under Component 2 was calculated by subtracting projected baseline spending on contractors from the 7.5 per cent cap, with the baseline and capped spending calculated using the assumptions described above.

Estimates have been rounded to the nearest \$1 million.

## Data sources

Australian Public Service Commission (APSC), 2019. *APS Agency Listing*. [Online] Available at: <https://www.apsc.gov.au/aps-agency-listing-agencies-covered-public-service-act-1999> [Accessed 13.04.2019].

APSC, 2018. *APS Remuneration Report 2017*, Canberra: Commonwealth of Australia.

APSC, 2018. *APS Statistical Bulletin: December 2018*, Canberra: Commonwealth of Australia.

APSC, 2018. *APS Statistical Bulletin: June 2018*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2019. *2019-20 Budget*, Canberra: Commonwealth of Australia.

The Department of Finance provided the indexation parameters as at the 2019 Pre-election Economic and Fiscal Outlook.

Commonwealth of Australia, 2017. *Contracts awarded as Consultancy Criteria*. [Online] Available at: <https://www.tenders.gov.au/?event=public.reports.CN.Consultancy.form> [Accessed 26.06.2018].

## Attachment A – Cut the government contracts of the big four accounting firms and restore jobs to the public service – financial implications

**Table A1: Cut the government contracts of the big four accounting firms and restore jobs to the public service – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Component 1: Lift wage growth and restore staffing levels</b>													
<b>Element 1 – Lift wage growth for general government sector department and agency staff</b>													
Revenue	238	448	666	830	912	906	978	1,051	1,125	1,202	1,280	2,182	9,635
Departmental expenses	-725	-1,349	-2,002	-2,684	-2,921	-3,164	-3,412	-3,665	-3,924	-4,189	-4,460	-6,761	-32,496
<b>Total – Element 1</b>	<b>-487</b>	<b>-901</b>	<b>-1,336</b>	<b>-1,854</b>	<b>-2,009</b>	<b>-2,258</b>	<b>-2,434</b>	<b>-2,614</b>	<b>-2,799</b>	<b>-2,987</b>	<b>-3,180</b>	<b>-4,579</b>	<b>-22,861</b>
<b>Element 2 – Restore ongoing Australian Public Service Act 1999 staff to 2011-12 levels</b>													
Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Departmental expenses	-528	-1,062	-1,601	-2,147	-2,467	-2,776	-3,089	-3,406	-3,726	-4,049	-4,375	-5,337	-29,227
<b>Total – Element 2</b>	<b>-528</b>	<b>-1,062</b>	<b>-1,601</b>	<b>-2,147</b>	<b>-2,467</b>	<b>-2,776</b>	<b>-3,089</b>	<b>-3,406</b>	<b>-3,726</b>	<b>-4,049</b>	<b>-4,375</b>	<b>-5,337</b>	<b>-29,227</b>
<b>Interaction between Elements 1 and 2 – Increase wages for additional ongoing staff</b>													
Revenue	6	21	47	78	97	108	129	152	177	205	234	151	1,254
Departmental expenses	-17	-63	-140	-251	-312	-378	-451	-531	-619	-714	-816	-471	-4,292
<b>Total – Interaction: Element 2</b>	<b>-11</b>	<b>-42</b>	<b>-93</b>	<b>-173</b>	<b>-215</b>	<b>-270</b>	<b>-322</b>	<b>-379</b>	<b>-442</b>	<b>-509</b>	<b>-582</b>	<b>-320</b>	<b>-3,038</b>
<b>Element 3 – Remove the 2006-07 average staffing level cap for the general government sector</b>													
Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Departmental expenses	-130	-345	-562	-781	-863	-942	-1,023	-1,106	-1,190	-1,274	-1,359	-1,817	-9,573
<b>Total – Element 3</b>	<b>-130</b>	<b>-345</b>	<b>-562</b>	<b>-781</b>	<b>-863</b>	<b>-942</b>	<b>-1,023</b>	<b>-1,106</b>	<b>-1,190</b>	<b>-1,274</b>	<b>-1,359</b>	<b>-1,817</b>	<b>-9,573</b>
<b>Interaction between Elements 1 and 3 – Increase wage for additional staff after lifting cap</b>													
Revenue	1	7	16	28	34	37	43	49	57	64	73	53	409
Departmental expenses	-4	-20	-49	-91	-109	-128	-149	-173	-198	-225	-254	-165	-1,400
<b>Total – Interaction: Element 3</b>	<b>-3</b>	<b>-13</b>	<b>-33</b>	<b>-63</b>	<b>-75</b>	<b>-91</b>	<b>-106</b>	<b>-124</b>	<b>-141</b>	<b>-161</b>	<b>-181</b>	<b>-112</b>	<b>-991</b>
<b>Total – Component 1: Lift wage growth and restore staffing levels</b>													
Revenue	245	476	729	936	1,043	1,051	1,150	1,252	1,359	1,471	1,587	2,386	11,298
Departmental expenses	-1,404	-2,839	-4,354	-5,954	-6,672	-7,388	-8,124	-8,881	-9,657	-10,451	-11,264	-14,551	-76,988
<b>Total – Component 1</b>	<b>-1,159</b>	<b>-2,363</b>	<b>-3,625</b>	<b>-5,018</b>	<b>-5,629</b>	<b>-6,337</b>	<b>-6,974</b>	<b>-7,629</b>	<b>-8,298</b>	<b>-8,980</b>	<b>-9,677</b>	<b>-12,165</b>	<b>-65,690</b>
<b>Component 2: Restrict expenditure on labour-hire companies and some contractors</b>													
<b>Element 1: Shift expenditure from labour-hire companies to general APS funding</b>													
Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Departmental expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total – Element 1</b>	<b>-</b>	<b>-</b>											
<b>Element 2: 7.5 per cent departmental expenditure cap on consultancies</b>													
Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Departmental expenses	398	850	886	946	950	974	998	1,023	1,049	1,075	1,102	3,081	10,251
<b>Total – Element 2</b>	<b>398</b>	<b>850</b>	<b>886</b>	<b>946</b>	<b>950</b>	<b>974</b>	<b>998</b>	<b>1,023</b>	<b>1,049</b>	<b>1,075</b>	<b>1,102</b>	<b>3,081</b>	<b>10,251</b>

	2019– 20	2020– 21	2021– 22	2022– 23	2023– 24	2024– 25	2025– 26	2026– 27	2027– 28	2028– 29	2029– 30	Total to 2022–23	Total to 2029–30
<b>Total – Component 2: Restrict expenditure on labour-hire companies and some contractors</b>													
<i>Revenue</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Departmental expenses</i>	398	850	886	946	950	974	998	1,023	1,049	1,075	1,102	3,081	10,251
<b>Total – Component 1</b>	<b>398</b>	<b>850</b>	<b>886</b>	<b>946</b>	<b>950</b>	<b>974</b>	<b>998</b>	<b>1,023</b>	<b>1,049</b>	<b>1,075</b>	<b>1,102</b>	<b>3,081</b>	<b>10,251</b>
<b>Total – Components 1 and 2</b>													
<i>Revenue</i>	245	476	729	936	1,043	1,051	1,150	1,252	1,359	1,471	1,587	2,386	11,298
<i>Departmental expenses</i>	-1,006	-1,989	-3,468	-5,008	-5,722	-6,414	-7,126	-7,858	-8,608	-9,376	-10,162	-11,470	-66,737
<b>Total</b>	<b>-761</b>	<b>-1,513</b>	<b>-2,739</b>	<b>-4,072</b>	<b>-4,679</b>	<b>-5,363</b>	<b>-5,976</b>	<b>-6,606</b>	<b>-7,249</b>	<b>-7,905</b>	<b>-8,575</b>	<b>-9,084</b>	<b>-55,439</b>

- (a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.
- (b) Figures may not sum to totals due to rounding.
- Indicates nil.