



Policy costing

Improving wage growth	
Person/party requesting the costing:	Senator Richard Di Natale, Australian Greens
Date costing completed:	23 November 2017
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>The proposal would increase the salaries of public servants with Australian Public Service (APS) classification levels below the Executive Level 1 classification to:</p> <ul style="list-style-type: none"> Option 1: 4.0 per cent per annum. Option 2: 5.0 per cent per annum. <p>The increase in departmental appropriations would be exempt from the efficiency dividend.</p> <p>The proposal would commence on 1 July 2018 and terminate on 30 June 2023.</p>	

Costing overview

Option 1: 4.0 per cent per annum salary increase for five years

This option would be expected to decrease the fiscal and underlying cash balances by \$963 million over the 2017-18 Budget forward estimates period. This impact reflects an increase in departmental expenses of \$1,393 million, which would be partially offset by an increase in revenue of \$430 million.

Table 1: Option 1 – 4.0 per cent per annum salary increase for five years – Financial implications
(\$m)^{(a)(b)}

	2017–18	2018–19	2019–20	2020–21	Total to 2020–21
Fiscal balance	-	-168	-317	-477	-963
Underlying cash balance	-	-168	-317	-477	-963

(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.

- Indicates nil.

Option 2: 5.0 per cent per annum salary increase for five years

This option would be expected to decrease the fiscal and underlying cash balances by \$1,342 million over the 2017-18 Budget forward estimates period. This impact reflects an increase in departmental expenses of \$1,954 million, which would be partially offset by an increase in revenue of \$612 million.

Table 2: Option 2 – 5.0 per cent per annum salary increase for five years – Financial implications (\$m)^{(a)(b)}

	2017–18	2018–19	2019–20	2020–21	Total to 2020–21
Fiscal balance	-	-233	-444	-665	-1,342
Underlying cash balance	-	-233	-444	-665	-1,342

(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.

- Indicates nil.

Each option in this proposal would be expected to have ongoing impacts beyond the 2017-18 Budget forward estimates period. A breakdown of the financial implications of each option over the period 2017-18 to 2027-28 has been provided at [Attachment A](#).

The financial implications of this proposal are sensitive to the assumptions regarding the size and structure of the APS, and the baseline wage growth estimates.

Key assumptions

The Parliamentary Budget Office has made the following assumptions.

- The size and structure of the APS would remain constant over the period 2017-18 to 2027-28. This reflects the fact that total APS staff below the EL1 level have both grown and shrunk from year to year over the recent past.
- Salary growth rates would return to the baseline projections at the end of 2022-23.

Methodology

The expense impact of this proposal was calculated by subtracting the total salary expenditure for the affected public servants under the proposal from the total salary expenditure that is estimated to occur in the absence of the proposal.

- Future baseline salary expenditure was estimated by growing 2016-17 salary expenditure by the appropriate wage cost index net of the efficiency dividend as at the 2017-18 Budget.
- Under the proposal, salary expenditure was estimated by growing 2016-17 salary expenditure by the rate specified in the option for the period 2018-19 to 2022-23. Outside this period, expenditure growth under the proposal is the same as in the baseline.

The personal income tax revenue impact of this proposal was calculated by applying the appropriate average marginal income tax rate and the Medicare levy to the difference in the total salary expenditures for each affected APS classification level and adding the additional tax raised on the increased superannuation contributions.

Data sources

The Department of Finance provided the wage cost index and efficiency dividend data as at the 2017-18 Budget.

Commonwealth of Australia, 2017. *2017-18 Budget Fiscal Outlook*, Canberra: Commonwealth of Australia.

Australian Public Service Commission, 2017. *APS Remuneration Report 2016*, Canberra: Commonwealth of Australia.

Attachment A – Improving wage growth – financial implications

Table A1: Improving wage growth – Option 1 – 4.0 per cent per annum salary increase for five years – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total to 2020–21	Total to 2027–28
Administered revenue	-	66	142	223	315	408	426	432	450	459	465	430	3,386
Departmental expenses	-	-234	-459	-700	-952	-1,215	-1,235	-1,255	-1,275	-1,296	-1,316	-1,393	-9,937
Total	-	-168	-317	-477	-637	-807	-809	-823	-825	-838	-851	-963	-6,551

- (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.

Table A2: Improving wage growth – Option 2 – 5.0 per cent per annum salary increase for five years – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	Total to 2020–21	Total to 2027–28
Administered revenue	-	91	199	322	449	598	626	635	645	655	665	612	4,884
Departmental expenses	-	-324	-643	-987	-1,350	-1,732	-1,759	-1,787	-1,815	-1,844	-1,873	-1,954	-14,114
Total	-	-233	-444	-665	-902	-1,134	-1,133	-1,152	-1,170	-1,189	-1,209	-1,342	-9,230

- (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.