



COSTING – OUTSIDE THE CARETAKER PERIOD

Name of proposal to be costed:	Reducing the size of the Public Service by 20,000 positions
Summary of proposal:	<p>This proposal would introduce a two year public service temporary recruitment freeze where Commonwealth employees who leave the Australian Public Service during this period are not replaced. Uniformed and frontline service positions are exempted from this freeze. The intention of the proposal is to reduce the size of the Australian Public Service.</p> <p>The proposal will have effect from 1 July 2014.</p>
Person/party requesting costing:	[REDACTED]
Date costing request received:	7 March 2013.
Date costing completed:	11 April 2013.
Did the applicant request the costing be confidential?	Yes.
Agencies from which information was obtained:	Department of Finance and Deregulation.
Expiry date for the costing:	14 May 2013 (2013-14 Budget).

Costing overview

This proposal aims to reduce the Australian Public Service (APS) by 20,000 staff over two years from 1 July 2014. Based on PBO modelling of the staffing levels under current policy settings, the APS is already forecast to decline by 4,072 over this period reflecting estimated natural attrition of 17,925 staff, partially offset by estimated recruitment of 13,853 staff. Accordingly under a scenario of no recruitment over the two year period, the APS would be reduced by a further 13,853 staff bringing the estimated reduction in staff to 17,925. The remaining reduction of 2,075 staff (required to meet the 20,000 target by the end of the 2015-16 financial year) would be achieved through voluntary or forced redundancies.

Although the existing estimated net staff loss of 4,072 staff contributes to the targeted reduction of 20,000 positions, it does not generate savings as the impact of this staffing loss is already factored into the budget and forward estimates.

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This proposal is expected to increase both the underlying cash and fiscal balances by \$4.3 billion over the 2013-14 Budget forward estimates period. This impact is entirely due to a net decrease in departmental expenses.

This proposal is expected to generate savings beyond the forward estimates period similar to those achieved in 2016-17, indexed for wages growth. This reflects the ongoing effect of staff numbers in affected APS agencies being 20,000 lower relative to current policy settings.

This costing is considered to be of medium reliability as it relies on the assumption that the decision of individuals to leave the public service will be in line with historical trends and that employee expense estimates across the forward estimates are accurate.

The estimates in this costing will be affected by the separation rate. The average separation rate across the Australian Public Service over 2010-11 and 2011-12 was 6.7 per cent according to the Australian Public Service Commission, with the historical average since 2001-02 approximately 7.1 per cent. The most recent average of 6.7 per cent has been used in costing this proposal.

This costing advice is valid until 14 May 2013 when revised Budget estimates of average staffing levels and employee expenses will become available.

Table 1: Financial implications (outturn prices)^(a)

Impact on	2012-13	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	-	448.3	1,500.5	2,306.8
Fiscal balance (\$m)	-	-	448.3	1,500.5	2,306.8

(a) A positive number for the fiscal balance indicates a decrease in expenses in accrual terms. A positive number for the underlying cash balance indicates a decrease in expenses in cash terms.

Key assumptions

As per the costing request, uniformed and frontline service positions are exempt from this recruitment freeze. The PBO has applied the following exemptions:

- The Australian Defence Force, Department of Human Services, Australian Federal Police, Australian Customs and Border Protection Services are fully exempt, and
- 50 per cent of the Department of Agriculture, Fisheries and Forestry and 20 per cent of the Department of Immigration and Citizenship are exempt to account for quarantine and security roles.

The PBO has made the following assumptions in costing this proposal:

- The best estimate of the growth rate in average staffing levels in 2016-17 is equal to the 2015-16 employee expenses growth rate. This growth rate is deflated for wages growth of 3.15 per cent which is consistent with the average growth in total remuneration packages for non-SES staff observed during 2010-11 and 2011-12 as reported by the Australian Public Service Commission.

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- The average staff salary (including on-costs) across the Australian Public Service agencies subject to the recruitment freeze is equal to \$127,902 which is equivalent to an APS level 6 in 2013-14. Where information is not available on the average classification of staff within individual agencies, this salary level has been used, otherwise agency specific salary levels have been used. It is assumed that wages will grow at approximately 3.15 per cent per annum, consistent with the average growth in total remuneration packages for non-SES staff observed during 2010-11 and 2011-12 as reported by the Australian Public Service Commission.
- The current average separation rate over 2010-11 and 2011-12 of specific agencies and across the Australian Public Service is the best estimate of the future separation rate.
- The separation of staff across the public service occurs evenly throughout the year.
- The average per person cost of a redundancy has been estimated at approximately \$44,000. This is based on an average salary (excluding on-costs) of \$100,000, average service length of 8.8 years (2011-12 State of the Service report) with a payout equal to 2 weeks' salary per year of service, pro-rated for months of service. An allowance for 5 weeks of accrued leave per person has been included based on research by Roy Morgan on the average accrued annual leave balances of Australian workers.
- It is assumed that one third of voluntary or forced redundancies will occur in the first year of the freeze, with the remaining occurring in the second year.

Methodology

This costing has been estimated using the following methodology:

- Average staffing level forecasts for each entity subject to the freeze have been calculated using existing forward estimates of departmental employee funding and deflating these estimates for real wages growth of 3.15 per cent per annum. Using this series, an annual growth rate is determined for each agency and applied to the 2012-13 estimates of staffing levels published in Statement 6 of the 2012-13 Budget Paper No. 1.
- Using data published by the Australian Public Service Commission, the average separation rate and salary level over 2010-11 and 2011-12 for 92 agencies subject to the freeze was calculated. For the remaining agencies, the average separation rate (6.7 per cent) and salary (\$127,902) across in-scope agencies was used.
- The separation rate was then multiplied by the forecast staffing level to estimate the adjusted staffing level allowing for natural attrition and no recruitment.
- Only agencies whose staffing level is forecast to grow, or fall by less than the separation rate are assumed to generate savings (that is, agencies who are currently forecasting a fall in average staff by more than would arise under the separation rate do not contribute any additional savings to the hiring freeze as this is already factored into the budget estimates).
- The estimated staffing loss due to natural attrition is averaged over each year to reflect that only a portion of an individual's salary will be recoverable as the resignation date approaches the end of the financial year (that is, some staff will leave early in the year allowing the majority of the salary for that year to be recovered, whereas others will leave late in the year).

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- The average staffing loss from natural attrition is multiplied by the average salary (indexed to 3.15 per cent for wages growth) for each agency where available to determine the savings generated by this proposal.
- The difference between the 20,000 target and the number of staff that would be lost during a two year recruitment freeze (17,925 positions) is assumed to be the number of voluntary or forced redundancies (2,075 positions).
- For 2014-15, one third of this number and in 2015-16, two thirds of this number is multiplied by the average redundancy payout (\$44,000) to determine the cost of redundancies, with the savings from the salaries and on-costs recognised in each of the following years.
- The total saving is found by adding the savings from staff lost through natural attrition and the net saving from staff lost through redundancies.

Data sources

- 2012-13 Budget Paper No. 1 – Statement 6: Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector
- Australian Public Service Commission –
 - APS Statistical Bulletin – 2011-12
<http://www.apsc.gov.au/about-the-apsc/parliamentary/aps-statistical-bulletin/2011-12>
 - 2011 Remuneration Report – Total Remuneration Package
<http://www.apsc.gov.au/publications-and-media/current-publications/remuneration-surveys/2011-remuneration-survey-summary>
 - 2011-12 State of the Service report – length of service
<http://www.apsc.gov.au/about-the-apsc/parliamentary/state-of-the-service/new-sosr/appendix-1-workforce-trends>
- Roy Morgan research – *Australian workers hoarding leave*
<http://rac.com.au/About-Us/RAC-eNews/2012/February-2012/Australian-workers-hoarding-leave.aspx>