**PARLIAMENTARY BUDGET OFFICE**

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

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| **Referred by:** | Australian Labor Party | **Proposal No:** | C1689 |
| **Date Referred:** | 15/03/2023 | **Date Published:** | 20/03/2023 |

**Proposal Title:** Wages Policy

**Cluster:** Whole of Government

## General Government Sector Impacts

| | 2022-23 $'000 | 2023-24 $'000 | 2024-25 $'000 | 2025-26 $'000 | 4 year Total $'000 |
|---|---|---|---|---|---|
| Expenses (ex. depreciation) | | | | | - |
| Depreciation | | | | | - |
| Less: Offsets | | | | | - |
| Revenue | | | | | - |
| **Net Operating Balance:** | - | - | - | - | - |
| | | | | | |
| Capital Expenditure | - | - | - | - | - |
| Capital Offsets | | | | | |
| **Net Capital Expenditure:** | - | - | - | - | - |
| | | | | | |
| **Net Lending/(Borrowing):** | - | - | - | - | - |

## Total State Sector Impacts

| | 2022-23 $'000 | 2023-24 $'000 | 2024-25 $'000 | 2025-26 $'000 | 4 year Total $'000 |
|---|---|---|---|---|---|
| **Net Lending/(Borrowing):** | - | - | - | - | - |

**Notes and costing assumptions:**

**Policy description**

The policy proposes that:

(a) The legislated public sector wage cap, which is established under s.146C of the *Industrial Relations Act*, would be abolished. (Public sector policies other than the wage cap that are covered by the *Industrial Relations (Public Sector Conditions of Employment) 2014* would remain in force).

(b) The Government would conduct a review into the NSW Industrial Relations Act to introduce a new ‘interest-based bargaining system’ to deliver better public services and to identify productivity gains.

(c) the Government would maintain the existing targets of 3% wages growth in 2023-24 and 2.5% in subsequent years, with an additional 0.5% of wages growth permitted in 2023-24 if accompanied by offsetting productivity savings.

**Notes and costing assumptions continued:**

(d) To the extent that the IRC approves wage growth higher than the Government's wage targets, the Government will identify offsetting productivity savings to preserve budget neutrality.

**Costing**

Under the assumptions of the policy, there would be no Budget impact in the four years to 2025-26.

The policy assumes that the Government is able to identify productivity savings that offset any upside risk to the growth of remuneration. However, the PBO notes significant risks that wage growth could exceed the Government's targets and that fully offsetting savings may not be identified, as discussed below.

**Effect of removing legislative constraints on the IRC**

Provided offsetting savings are identified whenever wage growth exceeds the Government's targets (i.e. element (d) of the proposed policy), the removal of the legislated wage cap would have no budget impact.

However, restoring the independence of the Industrial Relations Commission could result in wage increases that do not match the Government's proposed wage policy. In principle, this could result in wage increases that are higher or lower than the Government's target. In a time of higher inflation, it is more likely that the IRC would approve higher wage increases.

If IRC approved wage growth exceeds the Government's target, there is a material risk of some combination of the following:

- Productivity savings do not fully offset the increased cost of wages, so that the Government's net operating balance and net lending both decrease.
- Staffing levels across the public service are maintained, but other costs are reduced and the quality of services is lowered.
- Staffing levels across the public service are lowered.

Under the proposed policy, additional labour expenses would be offset through productivity savings. Achievement of productivity savings will depend in large part on Government's ability to negotiate these savings with unions. The historical experience in NSW is that this has proven difficult in practice.

The greater the variation between the IRC's decisions and the Government's wage growth target, the greater would be the necessary savings to maintain Budget neutrality.

- As a hypothetical example, the PBO has considered the case where wages increase by 1 percentage point more than the Government's wage growth targets (i.e. approved wages growth of 4% in 2023-24, then 3.5% in subsequent years). In the absence of any productivity savings, remuneration costs would increase by a cumulative $2.6 billion over three years.
- To fully offset these costs, the Government would need to identify new productivity savings each year, ranging from $425 million in 2023-24 to $464 million in 2025-26, providing cumulative productivity savings of $2.6 billion over three years.

| $'000 | **2023-24** | **2024-25** | **2025-26** | **Total** |
|---|---|---|---|---|
| Employee related expenses | 379,514 | 770,072 | 1,181,789 | 2,331,375 |
| Other expenses (eg. superannuation) | 49,625 | 103,954 | 160,334 | 313,913 |
| less agency revenue | 3,823 | 7,678 | 11,848 | 23,349 |
| Incremental effect on wage costs | 425,316 | 866,348 | 1,330,275 | 2,621,939 |
| Annual productivity gains required | 425,316 | 441,032 | 463,927 | |
| Cumulative productivity gains | 425,316 | 866,348 | 1,330,275 | 2,621,939 |
| Net Budget impact | - | - | - | - |

**Notes and costing assumptions continued:**

These required savings would be in addition to existing agency efficiency dividends. Under the efficiency dividend policy, agencies are expected to find new savings of $96 million in 2023-24, $78 million in 2024-25 and $71 million in 2025-26, giving cumulative savings of $515 million over three years.

**Review into the NSW Industrial Relations Act**

The PBO assumes that this review can be delivered using existing resources of the Department of Premier and Cabinet and Treasury.