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Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator David Leyonhjelm
Liberal Democratic Party
Parliament House
CANBERRA ACT 2600

Dear Senator Leyonhjelm

Please find attached a response to your costing request, *Labour market* (letter of 8 August 2016).

As requested, this costing has been prepared on a confidential basis. The policy details that form the basis for the costing are as specified in your costing request. The PBO has not consulted with or drawn any policy details from a policy of any other political party or individual parliamentarian in the preparation of this costing. Accordingly, if you make this costing public, it would not be appropriate to attribute the costing to a policy of any other party or individual parliamentarian.

If you have any queries about this costing, please do not hesitate to contact Andrew Watterson on (02) 6277 9543 or Gareth Tunks on (02) 6277 9550.

Yours sincerely

Phil Bowen

/ November 2016

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Policy costing—outside the caretaker period

Name of proposal:	Labour market
Summary of proposal:	<p>The proposal would abolish the following:</p> <ul style="list-style-type: none"> • the modern awards including minimum wage and penalty rate requirements • unfair dismissal laws • all other restrictions on employer-employee interactions in Fair Work legislation. <p>Existing provisions in competition and consumer law, workplace health and safety law, discrimination law and criminal law would remain.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	1 November 2016
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

The proposal would abolish certain provisions under Fair Work legislation from 1 July 2017. It would therefore result in reduced functions and scope of the key agencies with oversight of this legislation: the Fair Work Commission (FWC), the Fair Work Ombudsman (FWO) and Fair Work Building and Construction (FWBC).

This costing includes only the reduction in departmental funding to the agencies as a result of this proposal. The flow-on effects, including the impacts on employment, wages, tax revenue and welfare expenditure would be highly uncertain. As a result, estimates of these impacts have not been included.

This proposal would be expected to increase the fiscal balance by \$610 million and increase the underlying cash balance by \$602 million over the 2016-17 Budget forward estimates period. This is entirely due to a net decrease in departmental expenses for agencies administering labour market regulation.

The financial implications of the proposal would extend beyond the forward estimates period as the FWC, FWO and FWBC would continue to have reduced functions. The costing includes one-off redundancy costs to agencies which have no impact beyond the forward estimates. A breakdown of the financial implications over 2016-17 to 2026-27 as requested is included at [Attachment A](#).

The proposal has a different impact on the fiscal balance and the underlying cash balance because of a delay between the recognition of expenses incurred by the agencies, and the payment of these expenses.

The costing is considered to be of low reliability because it relies on a number of assumptions regarding the change in the volume of dispute matters overseen by the Fair Work agencies. This would depend on the impact of the proposed changes on employee and employer behaviour. In addition, the costing does not include any allowance for the further economic impacts of the proposal, which are potentially substantial but highly uncertain in relation to their magnitude, direction and timing.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	168	219	223	610
Underlying cash balance	-	165	217	220	602

(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.

Key assumptions

In costing this proposal it has been assumed that the FWC, FWO and FWBC would continue to provide dispute resolution activities and provide advice and advocacy regarding the remaining legal provisions for workplace relations.

Methodology

The total savings from reduced departmental expenditure for the FWC, FWO and FWBC are estimated based on their current scope and functions under the *Fair Work Act 2009* and *Fair Work (Building Industry) Act 2012*, compared to their reduced scope and functions under the proposal. Estimates of savings are based on the current caseload of the agencies, and their current funding profile over the forward estimates period.

Due to the magnitude of the decrease in departmental expenditure, a provision has been included for redundancies. The number of required redundancies was derived as the estimated reduction in average staffing levels, less natural attrition. The average per person

cost of a redundancy has been estimated at approximately \$53,000. This is based on average salary (excluding on-costs), average service length of 10.4 years (APS Statistical Bulletin 2015-16) with a payout equal to two weeks' salary per year of service, pro-rated for months of service.

All estimates have been rounded to the nearest million.

Data sources

The Department of Finance provided 2016 Pre-Election Fiscal Outlook budget management system reports.

Attachment A – Labour market—financial implications

Table A1: Labour market—Fiscal balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Abolish modern awards, including minimum wage and penalty rates	-	49	50	51	150	51	51	52	52	53	53	53	515
Abolish unfair dismissal provisions	-	106	106	108	320	109	110	111	112	113	113	114	1,103
Abolish all other restrictions on employer-employee interactions ^(c)	-	62	63	64	189	64	65	65	66	66	67	67	650
Redundancy payments	-	-49	-	-	-49	-	-	-	-	-	-	-	-49
Total	-	168	219	223	610	224	226	228	230	232	233	235	2,219

(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.

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

(c) As specified in the proposal, this excludes existing provisions in competition and consumer law, workplace health and safety law, discrimination law and criminal law.

- Indicates nil.

Table A2: Labour market—Underlying cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Abolish modern awards, including minimum wage and penalty rates	-	49	49	50	148	50	51	51	52	52	52	53	509
Abolish unfair dismissal provisions	-	104	106	107	317	108	109	109	110	111	112	113	1,088
Abolish all other restrictions on employer-employee interactions ^(c)	-	61	62	63	187	63	64	64	65	65	66	66	641
Redundancy payments	-	-49	-	-	-49	-	-	-	-	-	-	-	-49
Total	-	165	217	220	602	221	223	225	227	228	230	232	2,189

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

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

(c) As specified in the proposal, this excludes existing provisions in competition and consumer law, workplace health and safety law, discrimination law and criminal law.

- Indicates nil.