

ESTIMATES BRIEF – Hot Issue

APS WAGES AND SALARIES

Supplementary Budget Estimates – October 2025

APS Wages and Salaries

Subject/Issue

Accuracy of Australian Public Service (APS) wages and salaries expense projections.

Key facts and figures

- Departmental expenses and resourcing requirements are impacted by Government decisions in each economic update.
 - The departmental expenses forecast profile in the 2025-26 Budget is consistent with trajectories in Budget papers over many years, including the 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO).
- Budget and MYEFO forecasts for wages and salaries expenses are the aggregation of individual entity forecasts of projected spending on wages and salaries.
 - In making these forecasts, entities consider their available departmental budget, which reflects the impact of indexation, the efficiency dividend, and funding variation associated with newly established, ongoing and terminating programs, and determine how much of this they expect to spend on wages and salaries.
- The 2025-26 Budget (Budget Paper No. 1, Statement 9: Australian Government Budget Financial Statements, Table 9.1, pages 271, and Note 7: Employee and superannuation expense, page 294) shows a relatively flat profile of wages and salaries expenses, which largely reflects the offsetting impacts of indexation of departmental budgets that provide some adjustment for the impact of wage and cost increases, and reductions in appropriations for programs that are scheduled to end.
- The method used to forecast wages and salaries in the 2025-26 Budget is consistent with historical practice.
 - In the 2025-26 Budget, wages and salaries expenses are estimated to be \$30.5 billion for 2025-26. This is an increase of around \$0.5 billion compared to the forecast in 2024-25 MYEFO and reflects the increase to the ASL estimates in the 2025-26 Budget. This increase is lower in the forward estimates due to the impact of programs scheduled to end in those years.

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Table 1: 'Wages and salaries' expenses

(\$ million)	2025-26	2026-27	2027-28	2028-29
2024-25 MYEFO 'Wages and salaries' expense (2024-25 MYEFO, page 144, Table 7.1)	\$29,898	\$29,589	\$29,802	-
2025-26 Budget 'Wages and salaries' expense (2025-26 Budget Paper No.1, page 271, Statement 9, Table 9.1)	\$30,450	\$29,608	\$29,959	\$30,402

Key points

Senator Patterson Letter – PBO 2025 Election Commitments Report

- On 20 June 2025, Senator Paterson wrote to the PBO ([Attachment D](#)), responding to the PBO 2025 Election Commitments Report (relevant excerpt at [Attachment E](#)).
- In his response, Senator Paterson stated that the Coalition's public service policy was 'effectively being discounted by being compared to a fictitious budget baseline which the Government has no intention of implementing'.
- Senator Paterson claimed the PBO costings assume the Government will cut the public service by 22,500 ASL, including 16,000 ASL in 2026-27. He argued this contradicts the Government's messaging that it will maintain the size of the public service.
- Questions relating to PBO forecasts should be directed to the PBO.
 - The PBO's forecasts of ASL over the forward estimates reflect independent assumptions and modelling. This in line with the PBO's remit to provide independent analysis of the budget cycle, fiscal policy, and the financial implications of policy proposals.

Public Sector wage increases

- Consistent with longstanding practice, entities are expected to meet wage increases arising from enterprise bargaining from within their existing budgets.
 - While it varies between agencies, the Wage Cost Indexes (WCIs) applied to index departmental funding are WCI3 and WCI6.
 - These are weighted averages of forecasts for the Consumer Price Index and the Wage Price Index, and include a productivity offset.

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- The projections for these wage cost indices are published annually in Budget Paper No. 3 (2025-26 Budget Paper No.1, page 130).
- Indexation arrangements reflect longstanding expectations of governments that entities should be expected to find operational efficiencies over time.
- Accountable authorities are expected to manage within their budgets, by adjusting their allocations across supplier expenses and wages and salaries expenses.
- Wages and salaries expenses published in the Budget papers include both ongoing and non-ongoing ASL.
- Trends in wages and salaries expense projections are variable and do not appear to deviate based on election cycles.
- From 2020-21 Budget onwards, wages and salaries projections have been lower than the actual expenses.

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Background

AFR/Opposition Claims of Wage and Salary Expense Estimate Shortfalls

On 8 January 2025, the Australian Financial Review published an article 'Labor faces \$7.4 billion wages black hole'. We expect the figure of \$7.4 billion was calculated by applying a 4.57 per cent wage increase per year (based on the 20-year long-term average from the latest edition of [PBO's historical fiscal data](#) Table 11) to the 'wages and salaries' estimate in the [2024-25 MYEFO](#) (page 144, Table 7.1). Table 1 below shows how we consider this figure was calculated:

Table 2: \$7.4 billion black hole calculation

(\$ million)	2024-25	2025-26	2026-27	2027-28	Total
2024-25 MYEFO 'Wages and salaries' expense (page 144, Table 7.1)	\$29,452	\$29,898	\$29,589	\$29,802	-
Estimated 'Wages and salaries' expense at the historical average growth rate of 4.57% p.a.	\$29,452	\$30,799	\$32,207	\$33,679	-
Difference between wages and salaries expense 2024-25 MYEFO forecast, and estimate based on 4.57% increase p.a.	\$0	\$901	\$2,618	\$3,877	\$7,396

On 17 January 2025, Senator Hume wrote to the former Secretary of the Department of Finance regarding media reporting on unfunded measures in the 2024-25 MYEFO, specifically the public sector wage increases agreed to by the government ([Attachment A](#)).

On 5 February 2025, the former Secretary of the Department of Finance responded to Senator Hume's letter ([Attachment B](#)). The letter confirmed that the method used to forecast wages and salaries for the 2024-25 MYEFO was consistent with historical practice and clarified that entities are expected to meet wage increases from enterprise bargaining from within their departmental budgets, which are indexed annually.

On 14 February 2025, the PBO published its costing, requested by Senator Hume, predicting the financial impact of maintaining ASL as reported in the 2024-25 Budget at the same level across the forward estimates would be \$7.04 billion ([Attachment C](#)).

Based on the assumptions and methodology released by the PBO, we expect the figure of \$7.04 billion was determined by:

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- Calculating the total cost of public services as a proportion of GDP, where total cost of public services includes cost of staff and supply of goods and services (using information included in Statement 6 of 2024-25 Budget Paper No.1).
- Scaling/deflating the 2024-25 published ASL estimate (from the 2024-25 Budget Paper No.4) by the decline in cost of public services as a proportion of GDP over forward estimates.
- Across the medium term, the PBO then assumed the cost of public services as a proportion of GDP (and the associated ASL level) was flat based on historical averages of ASL and public service costs as a proportion of GDP.
 - This medium-term analysis is not depicted in the table below, which focusses on the forward estimates period.

Table 3: PBO Costings on Public Service Maintenance - Finance's Calculation

Line	2024-25	2025-26	2026-27	2027-28	Total
Supply of goods and services (BP1 Note 9: supply of goods and services expense) (\$m)	\$56,804	\$57,637	\$56,145	\$58,674	
Workers' compensation premiums and claims (BP1 Note 7: employee and superannuation expenses) (\$m)	-\$3,238	-\$7,682	-\$5,136	-\$5,261	
Total employee and superannuation expense (BP1 Note 7: employee and superannuation expenses) (\$m)	\$62,286	\$67,411	\$66,039	\$67,442	
Total cost of public service (sum of the three lines above) (\$m)	\$115,852	\$117,366	\$117,048	\$120,855	
Nominal GDP (PBO historical fiscal data) (\$m)	\$2,757,081	\$2,868,868	\$3,022,841	\$3,182,355	
Total cost of public service as a % of GDP	4.2%	4.1%	3.9%	3.8%	
Percentage of previous year's cost of public service share of GDP		97.4%	94.6%	98.1%	
Estimated baseline ASL (2024-25 BP4 and by multiplying with percentage above)	209,150	203,627	192,731	189,025	
Difference in ASL baseline compared to 209,150	-	5,523	16,419	20,125	
Cost per ASL (PBO ASL Cost Calculator) (\$m)		\$0.165	\$0.167	\$0.168	
Financial impact of maintaining the 2024-25 ASL levels of 209,150 (\$m)		\$910	\$2,740	\$3,390	\$7,040

Methodology used in the 2025 Election Commitments Report

- The PBO used the same methodology to calculate their assumption that ASL would fall by around 22,500 over the forward estimates as they used in their costing released in February 2025 in response to Senator Hume's letter (see Table 4).

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- The election commitment report costing was updated to reflect 2025-26 Budget data (rather than the 2024-25 Budget data used previously)

Table 4: PBO Costings in 2025 Election Commitments Report - Finance's Calculation

Line	2025-26	2026-27	2027-28	2027-28
Supply of goods and services (BP1 Note 9: supply of goods and services expense) (\$m)	\$57,147	\$52,487	\$54,527	\$57,899
Workers' compensation premiums and claims (BP1 Note 7: employee and superannuation expenses) (\$m)	-\$5,491	-\$4,982	-\$5,655	-\$5,652
Total employee and superannuation expense (BP1 Note 7: employee and superannuation expenses) (\$m)	\$66,905	\$66,317	\$68,193	\$70,027
Total cost of public service (sum of the three lines above) (\$m)	\$118,561	\$113,822	\$117,065	\$122,274
Nominal GDP (PBO historical fiscal data) (\$m)	\$2,879,792	\$2,992,714	\$3,148,870	\$3,320,000
Total cost of public service as a % of GDP	4.1%	3.8%	3.7%	3.7%
Percentage of previous year's cost of public service share of GDP		92.4%	97.7%	99.1%
Estimated baseline ASL (2025-26 BP4 and by multiplying with percentage above)	213,349	197,093	192,656	190,856
Difference in ASL baseline compared to 213,349		-16,256	-20,693	-22,493

APS Wages and Salaries Projections

The APS-wide enterprise bargaining agreement agreed in November 2023 includes wage rises of 11.2 per cent over the three years to March 2026:

- 4 per cent in 2024-25
- 3.8 per cent in 2025-26, and
- 3.4 per cent in 2026-27.

Departmental budgets are indexed annually to account for both wage and cost increases. Indexation of departmental expenses has, since 1996, used Wage Cost Indices (WCIs) which factor in published and Treasury projected measures of aggregate wages growth.

The wages and salaries expense line in the Budget papers (Statement 10 in Budget Paper No.1 and Part 7 in the MYEFO publication) reflects agency estimates of their allocation of departmental expenses to different types of expenditure, including wages and salaries.

The wages and salaries expenses published in the Budget papers include both ongoing and non-ongoing ASL.

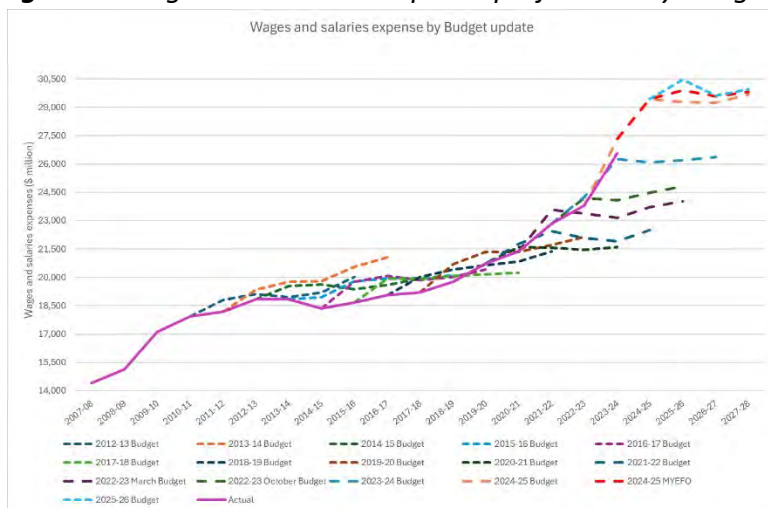
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The trends in wages and salaries expense projections are variable and do not appear to deviate based on election cycles (see Figure 2 below).

From 2020-21 Budget onwards, wages and salaries projections have been lower than the actuals.

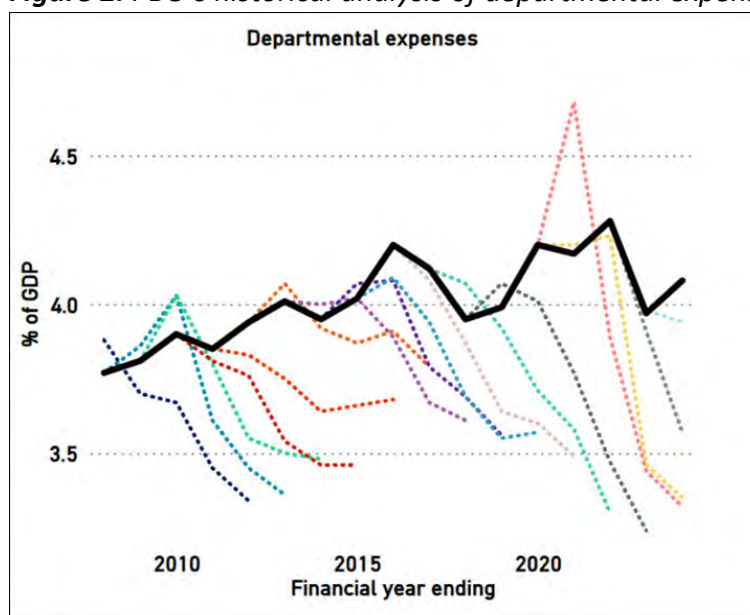
Prior to 2020-21 Budget (including the lead up to the 2019 May election), estimates and projections have generally been greater than the actuals for the relevant Budget year.

Figure 1: Wages and Salaries Expense projections by Budget Update



Historical analysis conducted by the PBO as part of its 'Beyond the Budget 2024-25: Fiscal Outlook and Sustainability' report shows the departmental expenses as a share of GDP, which highlights the trend for departmental expenses over the estimates to be revised up each year.

Figure 2: PBO's historical analysis of departmental expenses as a share of GDP



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PBO Note: 15 'Departmental expenses' is here defined as the sum of 'Total employee and superannuation expenses' (2024-25 Budget, page 377) and 'Supply of goods and services' (the subcomponent, not the total, 2024-25 Budget, page 378). This definition is somewhat different to that presented in Budget Paper 4 'Agency Resourcing' (page 168) but that data goes back only to the 2015-16 Budget and the final outcomes are not published. The trends in revisions to the estimates are broadly the same for each definition over the comparable years.

Supporting information

Questions on Notice

- No QoNs asked

Freedom of Information (FOI) Requests

- No FOIs asked

Recent Ministerial Comments

- Nil

Relevant Media Reporting

Australian Financial Review Article - Labor faces \$7.4b wages black hole

- ['How much Peter Dutton's plan to slash public service would have cost'](#), Dana Daniel The Canberra Times, 26 June 2025
- ['Gallagher rules out more ASP growth'](#), Julian Bajowski, The Mandarin, 10 February 2025
- ['With a \\$7.4b black hole, Gallagher tries to explain the unexplainable'](#), Michael Read, The Australian Financial Review, 9 January 2025
- ['Labor's \\$7.4b black hole from public service budget blunder'](#), Michael Read, The Australia Financial Review, 8 January 2025

Attachments

Attachment A: Letter from Senator Jane Hume to former Secretary Jenny Wilkinson

Attachment B: Letter from Jenny Wilkinson to Senator Jane Hume

Attachment C: Parliamentary Budget Office Costing of APS Levels

Attachment D: Letter from Senator James Paterson to the PBO responding to the 2025 Election Commitments Report

Attachment E: Extract of Parliamentary Budget Office 2025 Election Commitments Report

Date sent to MO: 22/09/2025
Cleared by (SES): Cath Patterson
Telephone No: S22
Group/Division: Budget Group / Budget Policy and Data Division
Contact Officer: S22
Telephone No:
Consultation:
PDR Number: SB25-000071

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Attachment A



SENATOR THE HON JANE HUME
SHADOW MINISTER FOR FINANCE SHADOW
SPECIAL MINISTER OF STATE
SHADOW MINISTER FOR THE PUBLIC SERVICE

Ms Jenny Wilkinson PSM
Secretary

Department of Finance 1
Canberra Ave
Forrest, ACT, 2603

Dear Secretary,

I write with regard to recent media reports on unfunded measures in the 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO), specifically the public sector wage increases agreed to by the Government.

The Government's centralised, whole-of-public service bargaining policy provides members of the Australian Public Service with a 11.2 per cent increase in remuneration over three years. Based on the Minister for Finance's public statements, I understand that employees at 45 agencies, or almost 70 per cent of all APS employees, can access this pay increase.

However, as has been widely reported in the media, the 2024-25 MYEFO shows on page 144, and again on page 166, that the Government expects wages and salary expenses to remain stable at between \$29.5 billion and \$29.9 billion per year over the forward estimates.

As you know the *Charter of Budget Honesty Act 1998* requires that Budget updates, including the MYEFO and Pre-election Economic and Fiscal Outlook report, must "take into account, to the fullest extent possible, all Government decisions, and all other circumstances

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that (a) may have a material effect on the fiscal and economic outlook." (s16(2) and s24(2)(a)).

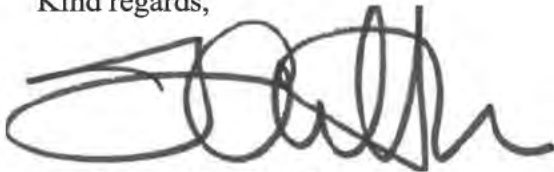
It is unclear to me how the MYEFO's assumptions of flat public sector wages growth can be reconciled with the decision taken by the Government to increase the wages of the majority of the APS by more than 11 per cent over three years, and the clear public statements of the Minister for Finance that she will not reduce the number of public servants.

As such, I am seeking further detail, including any relevant assumptions and formulae, relating to the projections in the 2024-25 MYEFO that estimate almost zero growth in public sector wages and salaries expenses. I further seek your assurance that the increase to public sector wages and the number of public servants will be accurately reflected in the Pre-election Economic and Fiscal Outlook report for which you and the Secretary of the Treasury are responsible.

Australians, not least the public servants that have been promised this wage increase, deserve clarity on whether these have been factored into the Government's Budget.

I look forward to your response.

Kind regards,

A handwritten signature in black ink, appearing to be 'Jane Hume', written in a cursive style.

Senator the Hon Jane

Hume 17 January

2025

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Attachment B



Australian Government
Department of Finance

Our Ref: EC25-000092

Senator the Hon Jane Hume

Shadow Minister for Finance, Shadow Special Minister of
State and Shadow Minister for the Public Service

Parliament House Canberra ACT 2600

Dear Senator Hume

Thank you for your letter of 17 January 2025 regarding recent media reports on the forecasts for wages and salaries expenses reported in the 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO).

The method used to forecast wages and salaries in the 2024-25 MYEFO is consistent with historical practice. Budget and MYEFO forecasts for wages and salaries expenses are the aggregation of individual entity forecasts of spending on wages and salaries. In making these forecasts, entities consider their available departmental budget, which reflects the impact of both indexation and funding associated with newly established and terminating programs, and determine how much of this they will spend on wages and salaries.

The relatively flat profile of the forecast for wages and salaries expenses in the 2024-25 MYEFO publication (pages 144 and 166) largely reflects the offsetting impacts of indexation of departmental budgets, which provide some adjustment for the impact of wage and cost increases, and reductions in appropriations for programs that have terminating funding.

The budget forecasts for wages and salaries expenses reflect current Government decisions and do not pre-empt future Government decisions. Departmental expenses and resourcing requirements are considered and affected by Government decisions in each economic update. The forecast profile in the 2024-25 MYEFO is consistent with trajectories in Budget papers over many years.

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In line with longstanding practice, entities are expected to meet wage increases arising from enterprise bargaining from within their departmental budgets. While it varies between agencies, the Wage Cost Indexes (WCIs) generally applied to index departmental funding are WCI-3 and WCI-6. These are weighted averages of forecasts for the Consumer Price Index and the Wage Price Index, and include a productivity offset. The projections for these wage cost indices are published annually in Budget Paper No.3 (page 131).

Indexation parameters have never reflected the specific bargaining outcomes or other circumstances of entities. Changes made to the indexation methodology in the 2023-24 Budget now mean that the wages component of the WCIs better reflect recent wages growth, by being linked to the growth in the Wage Price Index over the past year, instead of averaging the wage component over the previous 5-year period.

The indexation arrangements reflect long standing expectations of governments that entities should be expected to find operational efficiencies over time. Currently, a productivity offset of 1.2 per cent is applied to wages growth in the WCI calculation. In addition, departmental budgets are reduced by the application of a 1.0 per cent efficiency dividend to their departmental appropriations as well as Government measures to save \$4 billion over four years from 2022-23 from reducing spending on external labour.

Accountable authorities are expected to manage within the budgets that are appropriated to them, by adjusting their allocations across supplier expenses and wages and salaries expenses.

I am happy to answer further questions on this issue at the upcoming Senate Estimates hearings.

Yours sincerely



Jenny Wilkinson Secretary

5 February 2025

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Attachment C

PBO costing of APS levels



Parliamentary
Budget Office

Policy costing

Public Service Maintenance	
Person/party requesting the analysis:	Senator the Hon Jane Hume
Date analysis completed:	10 January 2025 (Note: This response has been prepared consistent with the policy settings and parameters at the 2024-25 Budget. The PBO expects to transition to the 202425 MYEFO parameters during January 2025. The PBO can provide an updated response based on the MYEFO parameters on request through the usual request process.)
Expiry date of the analysis:	Release of the next economic and fiscal outlook report
Status at time of request:	Submitted outside the caretaker period
	☒ Confidential – Authorised for public release on 14 February 2025 ☐ Not confidential
Summary of request: The proposal would maintain Australian Public Service (APS) average staffing levels (ASL) at the 2024-25 level from 1 July 2025 onwards. The request also sought the forecast APS ASL over the forward estimates and medium term to 2034- 35.	

Overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around \$7 billion over the 2024-25 Budget forward estimates period (see Table 1). This impact reflects a change in departmental expenses due to the change in ASL.

The proposal would be expected to have an impact beyond the 2024-25 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2034-35 is provided at Attachment A.

The financial implications of this proposal are highly sensitive to a number of factors including the distribution staff by level and agency, changes in pay rates and government decisions that affect the level of ASL across the in the Australian Public Service (APS). These factors could impact the cost of existing staff as well as the additional staff under this proposal.

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Table 1: Public Service Maintenance – Financial implications (\$m)^{(a)(b)}

	2024-25	2025-26	2026-27	2027-28	Total to 2027-28
Fiscal balance	-	-910.0	-2,740.0	-3,390.0	-7,040.0
Underlying cash balance	-	-910.0	-2,740.0	-3,390.0	-7,040.0

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

(b) PDI impacts are not included in the totals.

- Indicates nil.

Key assumptions

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

- In the baseline, ASL declines in line with ‘Total cost of public services as a share of GDP’ over the forward estimates period. This is to reflect the falling total cost of the public service as a share of GDP as forecasted in the 2024-25 Budget. The deflated ASL is then held constant over the medium term. Attachment B provides the PBO’s assumed ASL baseline over the medium term.
- The distribution of APS staff across classification levels and agencies would be similar to 2024-25 over the medium term.
- The maintained level in ASL would occur as specified regardless of any impacts on services and the delivery of Commonwealth Government commitments.

Methodology

The financial implications were calculated by multiplying the estimated total cost per ASL by the specified increase in ASL.

Total cost per ASL was calculated using the PBO’s departmental cost calculator, based on the 2024-25 staff distribution, as per *key assumptions*.

Financial implications were rounded consistent with the PBO’s rounding rules¹

Data sources

The Department of Finance provided projections for employee and superannuation expenses across the forward estimates as at the 2024-25 Budget.

Commonwealth of Australia, 2024. *2024-25 Budget*, Canberra: Commonwealth of Australia.

¹ <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

PBO Costings- Attachment A – Public Service Maintenance – Financial implications

Table A1: Public Service Maintenance – Fiscal and underlying cash balances (\$m)^(a)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total to 2027-28	Total to 2034-35
Expenses													
<i>Departmental</i>													
<i>Maintain ASL level</i>	-	-910.0	-2,740.0	-3,390.0	-3,430.0	-3,460.0	-3,500.0	-3,540.0	-3,580.0	-3,620.0	-3,650.0	-7,040.0	-31,820.0
Total (excluding PDI)	-	-910.0	-2,740.0	-3,390.0	-3,430.0	-3,460.0	-3,500.0	-3,540.0	-3,580.0	-3,620.0	-3,650.0	-7,040.0	-31,820.0

(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.

- Indicates nil.

Table A2: Public Service Maintenance – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total to 2027-28	Total to 2034-35
<i>Fiscal balance</i>	-	-20.0	-100.0	-230.0	-380.0	-550.0	-720.0	-910.0	-1,100.0	-1,310.0	-1,530.0	-350.0	-6,850.0
<i>Underlying cash balance</i>	-	-10.0	-80.0	-200.0	-350.0	-510.0	-680.0	-860.0	-1,060.0	-1,260.0	-1,480.0	-290.0	-6,490.0

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary²

(b) 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.

- Indicates nil.

² https://www.apf.gov.au/about_parliament/parliamentary_departments/parliamentary_budget_office/online_budget_glossary

PBO Costings- Attachment B – Public Service Maintenance – Financial implications

Table B1: Public Service Maintenance – Average Staffing Level, baseline compared to proposed options^{(a)(b)}

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
Baseline – deflated by total departmental expenses as a share of GDP^(a)	209,150	203,627	192,731	189,025	189,025	189,025	189,025	189,025	189,025	189,025	189,025
ASL maintained at 2024-25 levels	209,150	209,150	209,150	209,150	209,150	209,150	209,150	209,150	209,150	209,150	209,150

(a) Consistent with the methodology in the PBO's *Beyond the Budget 2024-25* report, total departmental expenses are estimated as the sum of 'Total employee and superannuation expenses' (2024-25 Budget, page 377) and

'Supply of goods and services' (the subcomponent, not the total, 2024-25 Budget, page 378).

Excludes military and rese



SENATOR JAMES PATERSON
SHADOW MINISTER FOR FINANCE
SHADOW MINISTER FOR GOVERNMENT SERVICES
SHADOW MINISTER FOR THE PUBLIC SERVICE
LIBERAL SENATOR FOR VICTORIA

20 June 2025

Sam Reinhardt
Parliamentary Budget Officer Parliament
House
Canberra ACT 2600

Dear Ms Reinhardt

2025 ELECTION COMMITMENTS REPORT

Thank you for providing an opportunity for the Coalition to provide a final formal response to the Parliamentary Budget Office's (PBO) 2025 Election Commitments Report. I thank you and your officers for your engagement throughout this process.

The recently appointed Leader of the Opposition the Hon Sussan Ley has asked me to respond on behalf of the Coalition as the Acting Shadow Treasurer and Shadow Finance Minister.

Formal Coalition comments for inclusion in the final report:

- 1) Forward estimates improvement: Aside from the impact of disagreement in relation to three policies outlined below, the Coalition notes that this report confirms the total savings over the forward estimates identified by the Coalition in its election costings (to within an aggregate difference of only a few hundred million dollars over four years). The report therefore confirms that the Coalition's election policies would have:
 - a) Improved the aggregate underlying cash balance (UCB) over the forward estimates relative to Labor; and
 - b) Achieved an even larger relative improvement in relation to the headline cash balance (HCB), as well as both gross and net debt.

The Coalition also notes the PBO's acknowledgement that, even with the adjustments noted below, "the PBO's estimates of the financial implications of the Coalition's platform are not materially different from those published by the Coalition prior to the election".

- 2) Entrepreneurship Accelerator Tax Incentive: The Coalition notes the difficult position in which it has been placed by the PBO in relation to the Entrepreneurship Accelerator Tax Incentive. The Coalition adopted this as an election policy on the basis of a PBO costing that its UCB impact would be around \$200 million in total over the forward estimates period. The PBO now advises that its previous costing was incorrect, and

this measure would in fact cost \$1.8 billion over the forward estimates. This means that the PBO is now booking an additional UCB cost to the Coalition of \$1.6 billion in this report, as a result of the PBO's own error. With limited resources, the Opposition relied on the PBO costing in good faith – had we been advised the cost of this measure was \$1.6 billion more, we may not have adopted it as policy.

- 3) Public service policy: The PBO books a reduced saving from the Coalition's public service policy primarily because it assumes the Albanese Government plans to cut the public service by 22,500, including 16,000 in 2026-27. This is despite clear public statements to the contrary from Department of Finance officials and senior Government Ministers. As discussed in depth at Senate Estimates in February 2025, Department of Finance officials explicitly disavowed this assumption, describing such a profile as "a hypothetical exercise" and stating that: "The PBO made their own assumptions in order to determine what the ASL might look like, over the forwards years. As Ms Wilkinson has indicated, we publish in the current year and the forward year but not beyond that. ... They [the PBO] made a series of assumptions to determine what they thought would happen to ASL over that period."

The savings from the Coalition's public service policy are effectively being discounted by being compared to a fictitious budget baseline which the Government has no intention of implementing.

The Labor Party clearly committed during the election to maintaining the size of the public service (i.e. retaining the Government's total announced increase of over 41,000 in public service ASL since mid-2022).

For example, in an Anzac Day report (just eight days before the election), when asked about the size of the APS in the future under Labor (in the specific context of its projected size of 213,000 in 2025-26), Labor's Minister for the Public Service and Finance Minister, Katy Gallagher, said "We actually think that the staffing level is about right". She further went on, in the same article, to state:

"Look, there may be some changes across departments and agencies as programs finish and other priorities ramp up, but I think, roughly, the public service is the appropriate size".

Minister Gallagher also repeatedly, in social media statements and interviews during the election campaign regarding the Coalition's proposed 41,000 public service reduction, made explicit statements such as "I will fight to protect these jobs everyday".

None of these numerous public statements, from either Minister Gallagher or her Labor colleagues, ever indicated that Labor would actually be cutting the public service – just by a smaller amount (22,500) than the Coalition.

The only savings measure announced by the Government during the election in relation to the public service was to external contractors, not public servants.

Labor's public position on fully opposing all of the Coalition's proposed public service reductions was so clear that SBS, in its election-morning assessment of the top

10 points of difference between the Coalition and Labor, summarised the Albanese government's position as "pledging no cuts to public servants".

The Coalition therefore notes that in this report, in its section on Labor's election commitments, consistent treatment of the Government and the Opposition would require the PBO to likewise include a multi-billion dollar adjustment to Labor's election costings – to allow for the additional expenditure of not carrying through the 22,500 reduction in public service ASL over the forward estimates that the PBO assumes.

- 4) Nuclear policy: During the last term as part of our nuclear power policy development process, the Coalition sought the assistance of the PBO to cost the construction of nuclear power plants in Australia. We were informed by the PBO that they were unable to cost the building or commissioning of nuclear reactors. As a result, the Coalition sought independent and expert external advice on the basis that the PBO was unable to do such a costing.

Those experts used their significant experience in energy economics and nuclear power to cost our program which had been designed to minimise cost blowouts by incorporating lessons learnt from international programs. It is notable that the expert advice, and our equity profile, used a capital cost slightly higher than that of the CSIRO. Our assumed construction timelines were also consistent with the advice of ANSTO and the IAEA.

The Coalition notes the PBO's views on different historical experiences in nuclear project costs internationally, and we note that different experiences in costs also apply to other infrastructure projects. Where the PBO illustrates a range of international nuclear project costs, the Coalition objects to the inclusion of projects which bear little relation to our program and where there were extreme cost blowouts, especially given our policy was designed to avoid the shortcomings of such projects.

Given the PBO has nevertheless chosen to include such projects, the Coalition further objects to the PBO's decision to exclude lower cost nuclear projects which have a direct relation to the design of the Coalition's policy, including those of South Korea, Japan, Canada, and China.

- 5) Medium term: The PBO assumes a lower gross deficit for Labor over the medium term (to 2035-36) primarily because it assumes the Coalition will stick to a tax-to-GDP ratio of 23.9 per cent, while Labor will allow taxes to rise as a proportion of the economy far beyond that.

Specifically, this report books a UCB cost of over \$140 billion to the Coalition in years six to eleven of the PBO's medium-term projections period, because of the Coalition's commitment to a 23.9 per cent tax-to-GDP cap.

It does not include this cost in the baseline – or hence, presumably, for Labor – on the basis that the Government does not formally commit to this rule – even though, whenever pressed on the matter, Treasurer Chalmers ridicules the idea that Labor will allow the tax-to-GDP ratio to rise to the record levels projected in this report for the early to mid-2030s.

This results in a budget bottom line that appears stronger due to record high tax levels as a share of GDP, even as Labor publicly dismisses criticism of such high tax levels as an unfounded scare campaign.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jim Paterson', with a stylized, flowing script.

SENATOR JAMES PATERSON

Relevant excerpt of the PBO's 2025 Election Commitments Report

Implementation of election commitments

All Commonwealth spending must be supported by the Australian Constitution. Costings prepared by the PBO assume that policy proposals are within the Commonwealth's constitutional power to implement. If a proposal is altered to strengthen the constitutional support, this may change the financial implications. The PBO is generally not in a position to assess whether a measure is likely to be constitutional or not.

Departmental costs associated with implementing a commitment are included in each costing unless otherwise specified. In some cases, based on either the specification of the policy or the PBO's assessment that the commitment would have a negligible cost (such as simple legislative changes or pass through of grants to specific entities), implementation costs are assumed to be absorbed within existing departmental resources.

Departmental expenses in the budget baseline tend to decrease over the forward estimates as a share of GDP primarily due to the cessation of funding for terminating programs (see Box 3) and indexation arrangements.¹⁵ In some cases, further resource reductions are also included in party platforms. When considering the combined impact of these reductions, the PBO notes that there is a downside fiscal risk that the public service may not be able to absorb all of the expected departmental costs and deliver on commitments.

Box 3: Changing the costs of the public service

The 2025 general election featured commitments from all major parties to change the costs of the public service, usually referred to as 'departmental expenses'. Once appropriated, agency heads have discretion on how to spend these funds.

Two major categories of departmental expenses are:

- employee expenses, which is the remuneration of staff hired by agencies, including wages and salaries, fringe benefits, accrued leave and superannuation. These expenses depend on the number of staff and their average remuneration
- supply of goods and services expenses, which include the costs of external labour (consultants, contractors, and labour hire), stationary, IT equipment, electricity and other office running costs.

In the 2025 ECR, there are 4 commitments specifically targeted towards departmental expenses, one each for Labor and the Coalition and 2 for the Greens. These affect:

- supply of goods and services expenses: Labor's *Further reducing spending on consultants, contractors and labour hire, and non-wage expenses* (ECR-2025-1596)

¹⁵ See PBO Budget Explainer: [Indexation & the budget – an introduction](#)

and one of the 2 Greens' commitments, *Reduce agency spending on consultants – reduce federal government contracts with big consulting firms (ECR-2025-3101)*, both of which improve the budget balances (positive bars on the left panel of Figure 2-9)

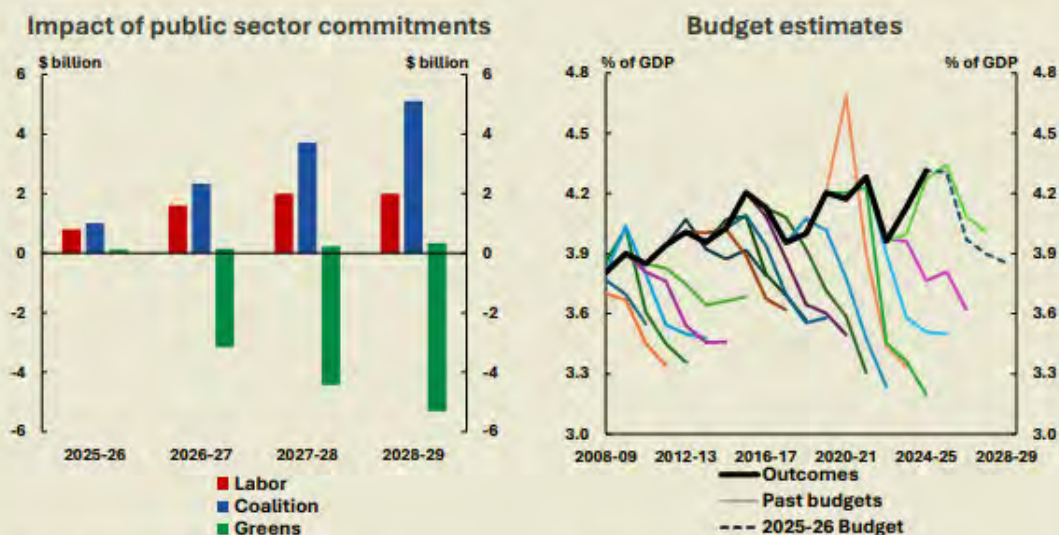
- employee expenses: the Coalition's *Reducing the APS to a sustainable level over time through natural attrition (ECR-2025-2147)*, which improves the budget balances (positive bar on the left panel of Figure 2-9), and the Greens' *Invest in the public service (ECR-2025-3685)*, which decreases the budget balances (negative bar).

These commitments are in addition to reductions in departmental expenses that are already factored into the 2025 PEFO baseline. Budgets incorporate only the impact of government decisions already taken. This means that programs which have been announced to receive funding for a limited time are assumed to end on schedule, which includes staffing costs. For costings in the ECR, the PBO has assumed that over the forward estimates:

- public service staffing levels fall by around 22,500¹⁶
- supplies of goods and services fall by around 12% in real terms (equivalent to \$7 billion).

The last 15 Budgets have included similar assumptions, such that departmental expenses are forecast to fall steeply, but these forecasts increase in subsequent budgets as programs are extended or new programs are announced (see right panel of Figure 2-9). More information on the typical fall in departmental expenses over budget forward estimates can be found in the PBO's *Beyond the budget 2024-25*.

Figure 2-9: Departmental expenses



Source: 2025 PEFO and PBO analysis.

Source: 2025 PEFO and PBO analysis.

Note: A positive impact indicates a reduction in expenses.
A negative impact indicates an increase in expenses.

¹⁶ The total public service wage bill, excluding defence, is forecast to fall by around 3% over the next 4 years while average wages are assumed to grow by around 10% (see Budget Paper 3, page 130). The implied fall in the staffing level of around 13% corresponds to around 22,500, assuming the composition of staff classifications remains broadly unchanged.