



## Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Coalition  
Date Referred: 25/02/2019

Proposal No: Y076  
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Proposal Title: Reducing Procurement Spending, Saving Taxpayer Dollars

Cluster: Treasury

### General Government Sector Impacts

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	4 year Total \$'000
Expenses (ex. depreciation)	-	(122,617)	(176,256)	(205,022)	(503,895)
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	-	-	-	-
<b>Net Operating Balance:</b>	-	<b>122,617</b>	<b>176,256</b>	<b>205,022</b>	<b>503,895</b>
Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
<b>Net Capital Expenditure:</b>	-	-	-	-	-
<b>Net Lending/(Borrowing):</b>	-	<b>122,617</b>	<b>176,256</b>	<b>205,022</b>	<b>503,895</b>

### Total State Sector Impacts

<b>Net Lending/(Borrowing):</b>	-	<b>122,617</b>	<b>176,256</b>	<b>205,022</b>	<b>503,895</b>
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### Notes and costing assumptions

The policy proposes to deliver whole-of-government administrative and procurement savings over the next four years from 1 July 2019, including savings in:

- consultants expenses by 20% each year from 2019-20 (excluding capital-related consultancy expenses)
- public service senior executive expenses by 10% each year from 2019-20 (excluding health, police, teaching, transport and crown services executives in Sydney Trains and NSW Trains)
- advertising expenses by \$30m
- legal expenses by 10% (excluding capital-related legal expenses)
- travel expenses by \$40 million
- various ICT, and other procurement savings.

The PBO estimates that the policy would generate savings of up to \$503.9 million over the forward estimates and \$728.9 million by 2022-23 (see table below).

	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	2022-23 \$'000	Forward Estimates \$'000	Total by 2022-23 \$'000
Senior executives	-32,968	-62,126	-63,679	-65,271	-158,772	-224,043
Legal	-5,139	-4,174	-3,468	-2,882	-12,781	-15,662
Consultants	-24,511	-24,206	-26,356	-24,549	-75,073	-99,622
Advertising	-30,000	-30,750	-31,519	-32,307	-92,269	-124,576
Travel expenses	-10,000	-20,000	-30,000	-40,000	-60,000	-100,000
Treasury and Finance Cluster - other procurement related opportunities	-20,000	-35,000	-50,000	-60,000	-105,000	-165,000
<b>Total</b>	<b>-122,617</b>	<b>-176,256</b>	<b>-205,022</b>	<b>-225,009</b>	<b>-503,895</b>	<b>-728,904</b>

**Notes and costing assumptions continued:**

Treasury advised that the above measures overlap with existing savings measures. Given the extent of existing savings allocated over 2019-20 to 2021-22 (totalling almost \$20 billion), agencies may have already started implementing some of the above measures, or reflected them in the forward estimates. In such cases, the additional savings from this policy are likely to have an impact on service delivery.

**Senior executives**

The PBO estimates that reducing senior executive expenses by 10% would generate savings of up to \$158.8 million over the forward estimates, and \$224.0 million by 2022-23. This estimate is based on natural attrition of 203 senior executives over two years and an average cost of around \$0.3 million each. The total cost is based on a weighted average remuneration of around \$249,000 (inclusive of superannuation), plus 20% for corporate and executive on-costs and overheads e.g. back office support functions and overheads such as IT and accommodation etc.

The number of senior executives is based on the Public Service Commission's 2018 headcount of public sector senior executives in Bands 1 to 3 (2,030). The PBO has not included senior executives from health, police, teaching, transport and other crown services (e.g. Sydney Trains and NSW Trains) as specified by the policy. In addition, the PBO excluded Band 4 roles. This is because cluster secretaries are typically appointed at the Band 4 grade and the PBO assumes that the number of clusters and secretaries will remain constant.

The PBO assumes that the 10% reduction will occur evenly throughout 2019-20 at a rate of around 17 executives at the beginning of each month. This is estimated to generate savings of \$33.0 million in 2019-20 as the reduction is phased in. Once fully phased in, the reduction is estimated to generate savings of \$62.1 million per year in 2020-21. For 2020-21 to 2022-23, the PBO included indexation of 2.5% per year, which is consistent with the latest senior executive remuneration determinations.

	2019-20	2020-21	2021-22	2022-23	Forward Estimates	Total by 2022-23
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Public sector senior executives savings (excluding health, teaching, transport, police and other crown services)	-32,968	-62,126	-63,679	-65,271	-158,772	-224,043

**Legal expenses**

The PBO estimates that reducing legal expenses by 10% would generate savings of \$12.8 million over the forward estimates, and \$15.7 million by 2022-23. This is based on Treasury's advice from November 2018 on the General Government Sector's recurrent legal expenses from 2019-20 (see table below). The PBO has applied the reduction of 10% for each of the years' expenses.

	2019-20	2020-21	2021-22	2022-23	Forward Estimates	Total by 2022-23
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Legal expenses (fees and disbursements)	51,385	41,743	34,678	28,817	127,806	156,623
Impact of 10% reduction	-5,139	-4,174	-3,468	-2,882	-12,781	-15,662

**Notes and costing assumptions continued:****Travel expenses**

The PBO estimates that reducing travel by \$40 million would generate savings totalling up to \$60 million over the forward estimates, and \$100 million by 2022-23. This is based on advice from Treasury on the recurrent total travel spend. Treasury has phased in the reduction by \$10 million in 2019-20, rising to \$40 million in 2022-23 (see table below).

	2019-20	2020-21	2021-22	2022-23	Forward Estimates	Total by 2022-23
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Travel expenses	-10,000	-20,000	-30,000	-40,000	-60,000	-100,000

The phasing reflects NSW Procurement's advice that there is currently scope to reduce \$31 million of the \$340 million in government travel expenses. The PBO considers this approach to be a reasonable approach in implementing the savings.

**Advertising expenses**

The PBO estimates that reducing advertising by \$30 million for four years would generate savings totalling up to \$92.3 million over the forward estimates, and \$124.6 million by 2022-23 (see table below). This estimate is based on Treasury's approach to reduce expenses by \$30 million in 2019-20. This includes indexation of 2.5% per year, which the PBO considers to be a reasonable measure of future prices changes for advertising expenses.

	2019-20	2020-21	2021-22	2022-23	Forward Estimates	Total by 2022-23
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Advertising expenses	-30,000	-30,750	-31,519	-32,307	-92,269	-124,576

**Consultancy expenses**

The PBO estimates that reducing expenditure by 20% would generate savings totalling up to \$75.1 million over the forward estimates, and \$99.6 million by 2022-23. This is based on Treasury's advice from January 2019 on the General Government Sector's recurrent consultancy expenses from 2019-20 (see table below). The PBO has applied the reduction of 20% for each of the years' expenses.

	2019-20	2020-21	2021-22	2022-23	Forward Estimates	Total by 2022-23
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Recurrent consultancy expenses	122,555	121,030	131,780	122,745	375,365	498,110
Impact of 20% reduction	-24,511	-24,206	-26,356	-24,549	-75,073	-99,622

**Other procurement savings**

Treasury reviewed \$410 million in potential savings in the following areas, between 2019-20 and 2022-23, including:

- information and communications technology (ICT) (\$227.7 million)
- residual procurement initiatives for waste management, utilities, office furniture, printing, medical expenses, salary packaging and removalists etc. (\$104 million)
- fleet expenses (\$28 million)
- Supply Demand Management (\$20 million)
- individual contract reviews (\$15 million)
- internal learning and development (\$15 million).

**Notes and costing assumptions continued:**

For the above savings, Treasury has included \$105 million over the forward estimates and \$165 million by 2022-23 in its cost estimate of the policy (see below).

	2019-20	2020-21	2021-22	2022-23	Forward Estimates	Total by 2022-23
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Treasury and Finance Cluster - ICT, fleet, and learning and development expenses	-20,000	-35,000	-50,000	-60,000	-105,000	-165,000

The breakdown of Treasury's estimate is as follows:

- 61% for ICT expenses
- 30% for fleet expenses
- 9% for learning and development expenses

Treasury has phased the savings as it reflects a more feasible implementation strategy to realise the above opportunities.

The PBO considers Treasury's approach to be reasonable and has adopted Treasury's estimates for this costing.

**Feasibility in realising potential savings under the policy**

The PBO considers the above savings estimates to be upper range estimates because of the potential overlap with existing savings measures and the potential investment required to achieve them. This is consistent with Treasury's advice that implementing future procurement savings are likely to be very challenging and that agencies have indicated risks in meeting existing efficiency savings.

The PBO notes that the 2018-19 Budget includes nearly \$20 billion in savings over the period 2019-20 to 2021-22, comprising:

- \$18.3 billion in whole of government efficiency measures introduced between 2011-12 and 2017-18
- \$1.5 billion in additional efficiency dividends (see extract of Table 6.2 below)

Table 6.2: Whole-of-government efficiencies since 2011-12

	2017-18	2018-19	2019-20	2020-21	2021-22	Total
	\$m	Budget \$m	\$m	Forward estimates \$m	\$m	
2011-12 to 2017-18 commitments <sup>(a)</sup>	5,298	5,605	5,914	6,164	6,174	29,154
2018-19 commitments						
Efficiency dividend	...	139	275	408	803	1,625
<b>Total savings</b>	<b>5,298</b>	<b>5,744</b>	<b>6,189</b>	<b>6,572</b>	<b>6,977</b>	<b>30,780</b>

(a) 2011-12 to 2017-18 commitments are based on total amounts published in 2017-18 Budget Paper No. 1, and have been adjusted to reflect Government decisions made since the 2017-18 Budget

Based on Treasury advice, the PBO considers agencies may have already implemented some of the opportunities identified by the policy in meeting its share of the efficiency and savings targets. For instance, an agency may have already pursued a reduction to its SES-related costs or measures to reduce consultancy expenses to meet the new 2019-10 efficiency dividends. In such cases, the additional savings from this policy are likely to have an impact on service delivery.

The PBO also notes that additional investment expenditure could be required to realise some of the savings. Treasury advised that Procurement NSW would require additional funding to coordinate and implement new systems and processes to realise consultancy savings across government. These costs have not been quantified by Treasury, as the policy specifies that such costs are to be absorbed. As such, the PBO considers that the exclusion of additional investment may affect Procurement NSW's ability to help achieve the above savings opportunities.