



# Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Australian Labor Party  
Date Referred: 1/11/2022

Proposal No: C759  
Date Published: 20/03/2023

Proposal Title: Cutting waste - Reduce Spending on Agency Hire Contractors by 25%

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)	-	(429,984)	(528,803)	(650,333)	(1,609,120)
Depreciation					-
Less: Offsets					-
Revenue					-
<b>Net Operating Balance:</b>	-	<b>429,984</b>	<b>528,803</b>	<b>650,333</b>	<b>1,609,120</b>

Capital Expenditure	-	-	-	-	-
Capital Offsets					
<b>Net Capital Expenditure:</b>	-	-	-	-	-

<b>Net Lending/(Borrowing):</b>	-	<b>429,984</b>	<b>528,803</b>	<b>650,333</b>	<b>1,609,120</b>
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## Total State Sector Impacts

<b>Net Lending/(Borrowing):</b>	-	<b>429,984</b>	<b>528,803</b>	<b>650,333</b>	<b>1,609,120</b>
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## Notes and costing assumptions

The policy proposes to reduce spending on agency hire recruitment contractors in the general government sector, excluding service delivery workers and all workers in schools and hospitals, by 25%. The policy assumes that the executive would retain discretion to reallocate savings between clusters and agencies in order to protect essential services and deliver on priorities.

The estimated impact of reducing expenditure on contingent labour hire by 25% over the forward estimates is \$1.61 billion with \$430 million in 2023-24, \$529 million in 2024-25 and \$650 million in 2025-26. The policy assumes that this reduction is allocated to agency budgets based on the government's priorities.

### Key assumptions and notes

#### What is contingent labour and what is it used for?

NSW Government agencies use contingent labour to help deliver services to the community. The NSW Public Service Commission (PSC) defines contingent labour as people employed by a recruitment agency and hired by government agencies to provide labour or services. Agencies use contingent labour to fill a gap in skills or capability, for example, to fill a position while a staff member is on leave or where specialist knowledge may be needed on a short-term basis. Contingent labour categories identified by the PSC include administration, finance, transport, education, State Emergency Services, professional, technical and ICT.

#### Who are service delivery workers?

There is no formal definition of a service delivery worker in the NSW general government sector. The PBO has made assumptions about how to remove service delivery workers and workers in schools and hospitals from the costing (see below).

**Notes and costing assumptions continued:**

The data set used as a base to estimate the reduction in contingent labour is sourced from Buy NSW, the NSW Government procurement entity responsible for procurement activities for all NSW Government. Source: Contingent Workforce Scheme. <https://buy.nsw.gov.au/schemes/contingent-workforce-scheme>

The data used in the above report was collected from three sources:

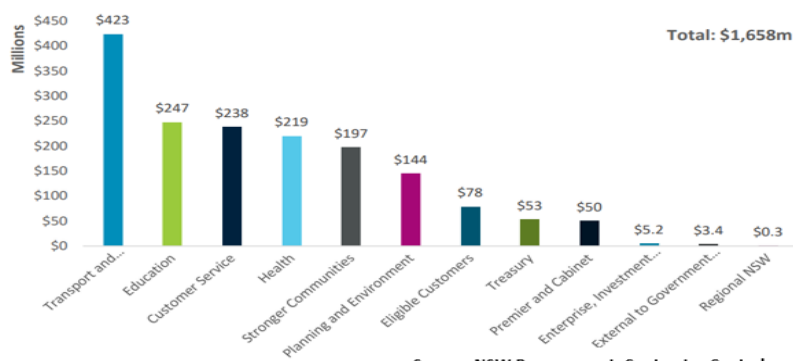
- Fieldglass Contractor Central Vendor Management System (VMS),
- Beeline Contractor Central VMS,
- Supplier reporting templates for transactions outside of the VMS.

The data currently available only includes total spend only. The number of staff employed is not available.

The Aggregate Contingent Workforce Spend for all clusters during 2021-22 was \$1,658m as per graph below.

**Aggregate Contingent Workforce Spend  
July 2021 to June 2022**

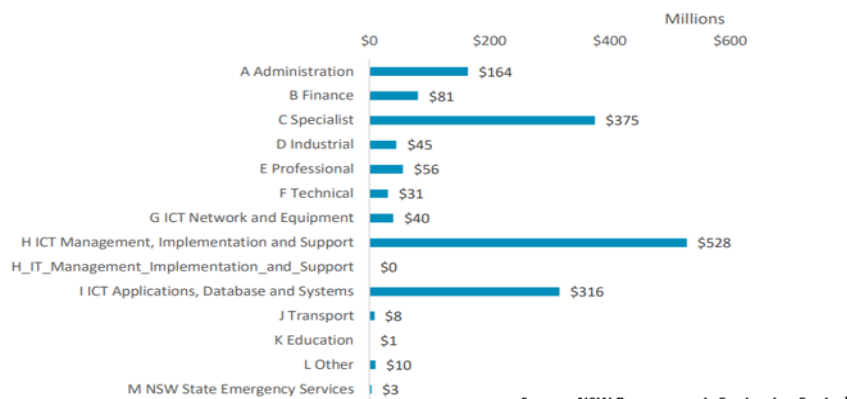
**Reported SCM0007 spend by Cluster**



Source: NSW Procurement, Contractor Central

The Categories of the spend (\$1,658m) for the 2021-22 was as follows:-

**Reported SCM0007 spend by Category**

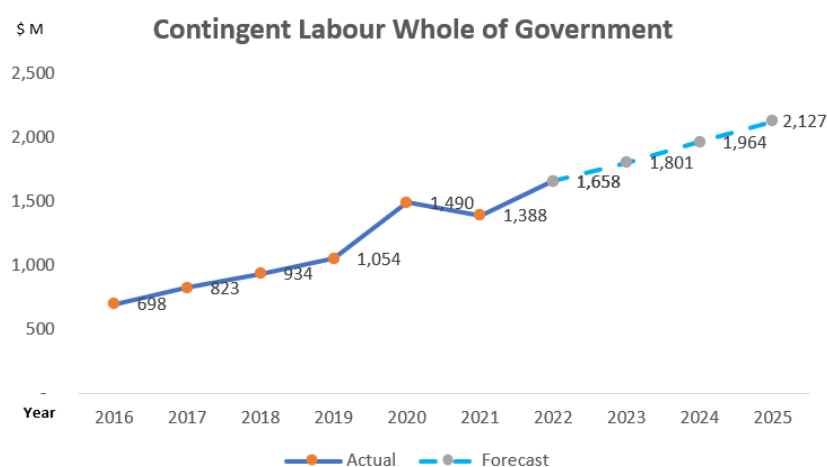


Source: NSW Procurement, Contractor Central

- The policy request calls for exclusion of service delivery workers and all workers in schools and hospitals. The PBO has adjusted the total of labour hire staff to be included in the policy costing as follows:-
- Assumed 50% of the total Health spend of \$219m is on labour force in service delivery roles or located in hospitals.
- Assumed 50% of the total Education spend of \$247m is on labour force in service delivery roles or located in schools.
- Assumed 5% of remaining expenditure in other clusters is on workers in service delivery roles; note there is no empirical data on this, it is a simplifying assumption based on a presumption that some staff in other agencies may be in service delivery roles.
- Without collecting further information from agencies, the PBO is limited to applying a simplification of assumptions for the purpose of constructing a costing.

### Notes and costing assumptions continued:

- 50% of Health spend (\$110m), 50% of Education spend (\$123m) and 5% for the rest of the clusters spend (\$60m), representing 18% or \$293m of the total spend for 2021-22.
- Accordingly, the total adjusted spending on labour hire staff, excluding service delivery and workers in schools and hospitals, for 2021-22 amounts to \$1,365m (\$1,658m less \$293m). A 25% saving would amount to \$341m.
- An assumption of 19.4% annual average growth in contingent labour has been assumed based actual spend trend since 2016. The graph below includes a trajectory of growth in contingent labour spend over the period of forward estimates using regression analysis.



- The policy proposes to reduce spending on contingent labour in the general government sector, excluding service delivery workers, by 25%. Based on the Spend By Category chart above, over 53% of the spend was in the ICT and 23% in the Specialist staff category.
- **Risks associated with the 25% reduction assumption**
- Assuming a reduction of 25% of labour hire staff, the areas that would be most affected would be in the ICT and Specialist staff categories, which made up of more than 75% of the spending.
- A reduction in labour hire staffing by 25% will mean either projects on which those staff have been working will have to be discontinued, or public service staff will need to be redeployed from other projects to undertake the work previously performed by labour hire staff. The policy specifies the executive would retain discretion to reallocate savings between clusters and agencies to protect essential services and deliver on priorities. The PBO assumes this will mean that low priority projects will not continue. Around half the spend on labour hire relates to information technology and communication; while work of this nature does not necessarily involve direct delivery of services to the public, it does affect agency capability. It is therefore extremely likely that the proposed reduction in labour hire staff will over time lead to a reduction in services to the public delivered by agencies in the general government sector.
- Based on the previous PBO (2019) policy costing using a 10% reduction, the assumption was considered manageable by clusters. This could be achieved by clusters reviewing staffing levels and redeploying staff from other areas where the demand is less based on work commitments.
- The NSW Audit office via its report dated March 2018 recommended (see link below) agencies assess whether long-term contingent worker engagements are the most economical. The Public Service Commission (PSC) recommends that contingent labour only be used when it is the most efficient and effective option available to respond to an agency's business needs. It also recommends that agencies' use of contingent labour be informed by workforce planning. Source: *Contingent workforce - management and procurement, Audit Office of New South Wales (audit.nsw.gov.au)*

**Savings on office accommodation**

Due to the ongoing changes in working arrangements introduced in response to COVID (work from home) and their continued and varied application by agencies to date, it is unlikely that there would be any realisable savings in accommodation as a result of this policy.