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Research &
Information Paper

**SURVEY OF CONTRACTING FOR SERVICES IN THE
NSW PUBLIC SECTOR, 1996-97**

TRP 98-3

April 1998

**Survey of Contracting for Services in the
NSW Public Sector, 1996-97**

**Report to
NSW Treasury**

April 1998



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PREFACE

This Research and Information Paper contains the results of the 1996-97 survey of Budget Sector agencies. An annual survey of contracting for services in the NSW public sector has been undertaken since 1993 and is part of a planned strategy to implement policy in New South Wales.

The 1996-97 survey of contracting for services in NSW Government was undertaken between July and November 1997, and achieved a response rate of 95 percent. The survey concentrated on contracts that were valued at \$50,000 or more for services, and excluded contracts for capital works, procurement of goods and materials, consultancies, employment and grant allocations.

The continued support and participation by agencies has been important because the survey provides a number of benefits. Specifically the survey:

- enables an assessment of the extent of contracting by agencies and functions;
- provides comparative data which is useful to agencies; and
- facilitates the creation of networks to put agencies in contact with those that have successfully undertaken a contracting role for a specific function.

This survey will be replaced from 1997-98 by the Service Competition Implementation Survey, coordinated by the Office of the Council on the Cost of Government.

The survey was undertaken on behalf of the NSW Government by CTC Consultants. NSW Treasury takes no responsibility for any errors in the information provided.

I wish to express my appreciation to the representatives from agencies who participated in the survey and provided information to enable this publication to be compiled.

John Pierce
Secretary
NSW Treasury
July 1998

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EXECUTIVE SUMMARY

The 1996-97 survey of contracting for services in NSW Government was undertaken between July and November 1997, and completed by 62 out of the 65 Budget Sector agencies. The survey concentrated on contracts that were valued at \$50,000 or more for services. It excluded contracts for capital works, procurement of goods and materials, consultancies, employment and grant allocations.

Several improvements and modifications were introduced in the 1996-97 survey in order to obtain more reliable results. Appropriate adjustments have been made when comparing the survey results with those from the previous year. Key findings of the survey are summarised below.

The total value of contracts awarded by the agencies surveyed was \$2,733 million, with \$1,518 million of this amount spent during the 1996-97 financial year.

After adjusting the figures for minor differences in survey methodology and the variation in responses to the survey, it was possible to conclude that the annual contracting expenditure for 1996-97 increased by approximately 10 per cent on that reported for 1995-96.

There were 23,382 contracts reported for 1996-97, about 35 per cent of these having been for building and property services. A total of 1,948 new contracts, that accounted for \$219 million in contracting expenditure, operated during the year.

The agencies identified that 69 per cent of the contracting expenditure and 49 per cent of the number of contracts were in core areas of their organisation.

Tendering accounted for 63 per cent of the contracting expenditure and 32 per cent of the number of contracts that had been awarded.

The largest number of contracts were with the private sector (69 per cent), followed by other government agencies (18 per cent) and in-house teams (13 per cent).

Following contracting, 38 per cent of staff were retained by the agency, and slightly less were re-employed by the successful contractor. The remainder either resigned, accepted voluntary redundancy or were redeployed to other agencies.

The majority of contracts (84 per cent) were specified for periods of up to five years.

Fixed price contracts accounted for 29 per cent of the total expenditure and 37 per cent of the total number of contracts that had been awarded. The remaining contracts were based on a schedule of rates.

The average cost of administering and managing contracts was 2.3 per cent of the contract expenditure, with the cost reducing as the size of the contract increased.

Agencies reported that a modest increase in new contracts had been planned for the 1997-98 financial year. A total of 293 new contracts with an annual expenditure of \$39.4 million were to be awarded in the coming year.

The most important reason offered for deciding to award the new contracts in 1997-98 was access to skills and expertise.

1. INTRODUCTION

Service competition policy, which encompasses contracting, is a key reform initiative of the New South Wales (NSW) Government. The Government has developed a policy framework and issued guidelines designed to assist public sector organisations with the implementation of this policy. In addition, the Government has been monitoring the extent of contracting in NSW agencies since 1993 through annual surveys.

NSW Treasury commissioned CTC Consultants to survey and report on contracting within the Budget Sector of the NSW Government for the 1996-97 financial year. This report contains the results of the survey. The survey process, which involved several phases, commenced in July 1997 and ended in November 1997. The survey focused primarily on the contracting activity in the 1996-97 financial year, but also requested basic information on new contracting initiatives planned for the 1997-98 financial year.

Of the 65 agencies in the NSW Budget sector, responses were received from the 62 agencies that are identified in Table 1.1. Those that did not respond to the survey were the Department of Gaming and Racing, Department of Land and Water Conservation and the Department of State and Regional Development.

As in earlier surveys, contracts for capital works, consultancies (as defined by the Public Employment Office), and employment contracts were excluded. Visiting Medical Officers (VMOs) have been treated as a special case in the study. While they were excluded from the detailed analysis and representation of the survey results, the overall contracting expenditure on VMOs has been identified separately in the report.

The survey focused primarily on contracts valued at \$50,000 or more, over the specified duration of the contract. Individual contracts that met this condition were surveyed in much detail. Multiple contracts for the same service, that individually may have been below this figure, but collectively was valued at \$50,000 or more, were surveyed in sufficient detail as to enhance the reliability of the study.

The survey obtained information on contracts that may have expired, been extended or renewed in 1996-97, and new contracts that were being proposed for 1997-98.

Table 1.1. Agencies that participated in the survey

Agencies

Ageing and Disability Department	Independent Pricing and Regulatory Tribunal
Attorney-General's Department	Judicial Commission of NSW
Bicentennial Park Trust	Legal Aid Commission of NSW
Cabinet Office	Ministry for Police
Casino Control Authority	Ministry for the Arts
Centennial Park and Moore Park Trust	National Parks and Wildlife Service
Coal Compensation Board	NSW Crime Commission
Community Services Commission	NSW Fire Brigades
Department for Women	NSW Fisheries
Department of Aboriginal Affairs	NSW Ombudsman
Department of Agriculture	NSW Police Service
Department of Community Services	NSW Registry of Births Deaths and Marriages ²
Department of Corrective Services	NSW Technical and Further Education Commission
Department of Energy	Office of Marine Administration
Department of Fair Trading	Office of the Board of Studies
Department of Health	Office of the Director of Public Prosecutions
Department of Industrial Relations	Parliamentary Counsel's Office
Department of Juvenile Justice	Premier's Department
Department of Local Government	Police Integrity Commission
Department of Mineral Resources	Roads and Traffic Authority
Department of Public Works and Services	Royal Botanic Gardens and Domain Trust
Independent Pricing and Regulatory Tribunal	Rural Assistance Authority
Judicial Commission of NSW	Rural Fire Service
Legal Aid Commission of NSW	State Electoral Office
Ministry for Police	State Emergency Service
Ministry for the Arts	Sustainable Energy Development Authority
National Parks and Wildlife Service	The Legislature
NSW Crime Commission	Tourism NSW
NSW Fire Brigades	Treasury
NSW Fisheries	Waterways Authority
NSW Ombudsman	

Footnotes:

1. The Policy Integrity Commission submitted a "nil return".
2. These agencies are not part of the Budget Sector but participated in the survey on Treasury's request.

2. SURVEY METHODOLOGY, DESIGN AND ANALYSIS

2.1 Scope of survey

In most public sector agencies, the contracts in operation are large in number, varied in size, and involve a range of different services. It was therefore necessary to place some limits on the type of contracts to be included in the survey.

As with earlier studies, the individual contracts that were surveyed in detail were restricted to those with a value of at least \$50,000 for the specified contract duration. Multiple contracts for the same service, that individually may have been below this figure but collectively was valued at \$50,000 or more, were also surveyed in sufficient detail.

The restrictions placed on the value of those contracts studied kept the survey process to a manageable level for the respondents. Another reason for using the \$50,000 limit was that most public sector organisations including those in NSW are required to obtain competitive tenders for contracts that exceeded this value. The agencies surveyed are therefore likely to have more reliable information on such contracts.

As the survey was concerned only with contracting for services it was necessary to exclude non-service related contracts, to avoid misrepresenting the scale and scope of contracting. The main restrictions applied here were as follows:

- Contracts for capital works, construction, goods, license agreements, leasing and rental were all excluded. These contracts are primarily concerned either with the provision of physical assets or the supply of materials, and do not include a significant service component.
- Employment contracts are common in many public sector organisations, especially with senior staff. They relate to internal staff, especially when the contracts are processed through the agency's payroll system. As a consequence, these contracts were excluded in the survey.
- Although services provided by VMOs may be considered employment related, they have been treated as a special case in the study and reported separately from the main results.
- Some public sector organisations offer substantial grants to external parties and for a wide range of services. However, such funding arrangements typically lack detailed specification of requirements, and the monitoring and controls normally associated with contracts. Such grants and allocations were excluded from the survey.

2.2 Classification of services

CTC Consultants reviewed the system of classifying services that was used in earlier surveys with the view to making it more comprehensive, consistent and comparable across other jurisdictions. This process involved two phases, the first of which involved revising the list of services surveyed to bring it in line with similar studies undertaken by CTC Consultants. Agencies were requested to respond to this list of services in the survey questionnaire.

Upon receipt of the survey responses, the list of services identified in the questionnaire was further refined to more accurately reflect the contracts that were reported by the NSW agencies surveyed. The final list of services analysed in this report are given in Table 2.1.

Table 2.1 Service categories surveyed and analysed

Service categories	
administrative and corporate services	legal services
auditing	management services
building and property services	marketing
equipment maintenance	printing and distribution
health and welfare	technical services
industrial waste removal	training and development
information technology and telecommunications	transport
infrastructure maintenance	Miscellaneous
laundry and linen	

2.3 Design of survey questionnaire

The survey questionnaire consisted of three main sections, the first of which (referred to as Form B) dealt with contracts that incurred or accrued expenditure in the 1996-97 financial year. This section requested detailed information on contracts valued at \$50,000 or more over their term (duration).

Where more than ten similar contracts were present for the same service, respondents were offered the simpler option of reporting the contracts in aggregate terms in a single return. This approach made the survey more manageable and improved the response rate by the agencies.

A separate section (referred to as Form C in the questionnaire) surveyed the planned implementation of new contracts in 1997-98. Contracts to be signed in 1997-98 as a result of re-tendering, renewal or extension were all excluded in this Form. The main objective of this section was to establish the growth prospects for contracting.

The Survey Coordinator in each agency was required to complete a Form D, which requested information on the organisation's total expenditure by service category. It included estimates of the agency's internal expenditure and total contracting expenditure for each service. The internal expenditure consisted of two components: employee related expenses and other operating expenses. The former comprised wages, salaries and on-costs, while the latter covered operating overheads relevant to the provision of a service. Estimates for total contracting expenditure included all contracts for services, including those that were not reported in Form B because they were below \$50,000 in value.

The survey questions requested quantitative information on pricing, duration and staffing arrangements relevant to the contract. It included detailed information on the tender processes followed in implementing contracting, the reasons for contracting, and the outcomes achieved in each case.

The survey returns received were checked, verified and coded by CTC Consultants. Survey respondents were contacted where further clarification or additional information was needed. Results of the analysis and interpretation of the survey results follow in Section 3 of this report.

3. SURVEY RESULTS

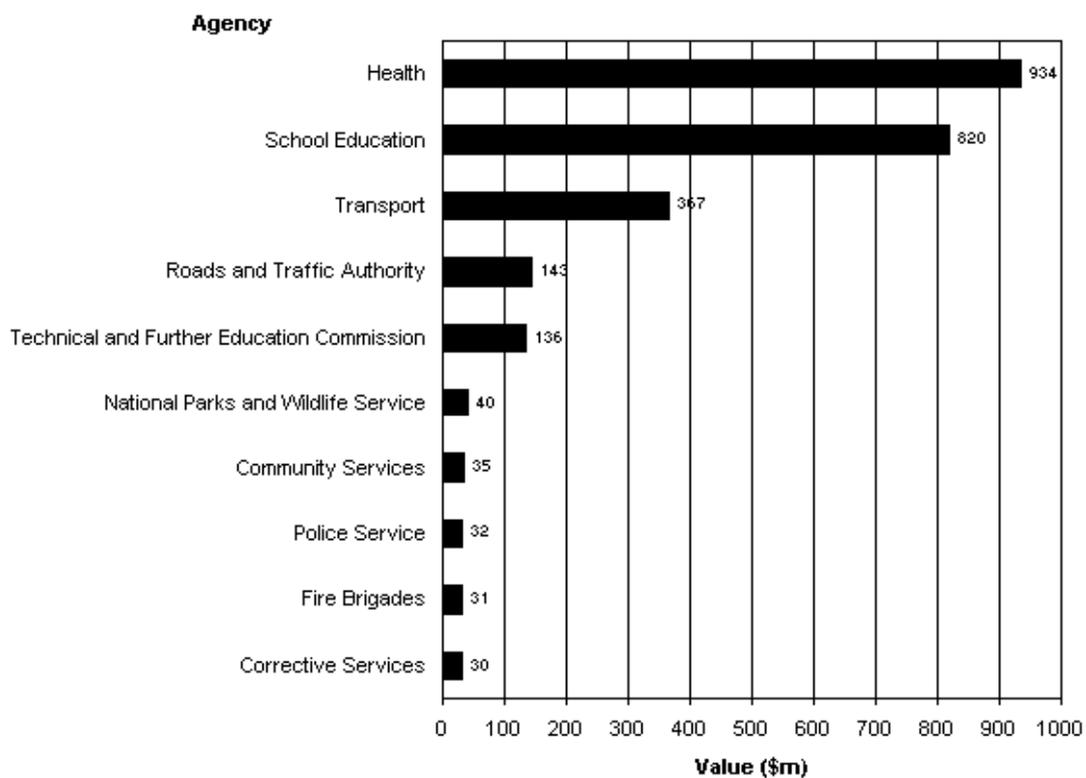
The analysis undertaken and results presented here draw on the detailed information contained in the Form B (1996-97 contracts) and Form C (new contracts planned for 1997-98) responses to the survey questionnaire. In both cases, individual contracts were valued at \$50,000 or more, and multiple contracts for the same service collectively valued at \$50,000 or more.

The graphical representation of some results has been restricted to the ten agencies with the largest figures, for space reasons. However, the complete list of results for all the surveyed agencies is provided in Appendix A.

3.1 Value of contracts

The **value** of contracts represents the total financial commitment of contracts that had been awarded, over their specified contract duration. Thus it provides a useful measure of the stock or volume of contracts that were current during the year.

Figure 3.1.1. Value of contracts by agency



The combined value of all reported contracts in the Budget sector in 1996-97 was estimated at \$2,733 million. The ten agencies identified in Figure 3.1.1 accounted for 94 per cent of this figure. The value of contracts at the Departments of Health, School Education and Transport totalled \$2,121 million.

3.2 Annual contracting expenditure

Unlike value, the annual contracting **expenditure** represents the actual flow of funds from the agency to its services providers. As would be expected, the annual contracting expenditure was less than the value of contracts reported in Section 3.1.

In 1996-97, the annual expenditure on contracting for services amounted to \$1,518 million, compared to the reported figure of \$1,762 million for 1995-96. However, these figures needed adjustment before a valid comparison was possible between both years.

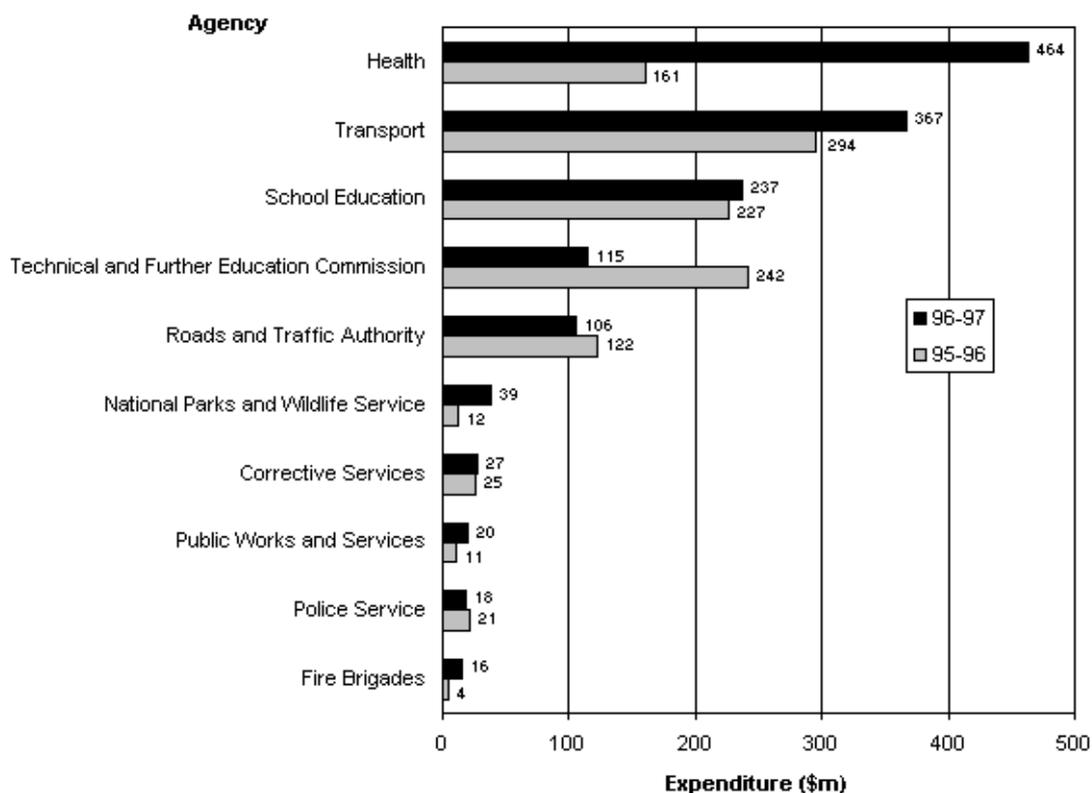
The adjustments were due to the following differences in the reporting of results in both surveys:

- (a) 1995-96: \$233 million reported for residential care, child care and protection, community development, accommodation, and family and youth support services by the Department of Community Services.
1996-97: Corresponding figures not reported.
- (b) 1996-97: \$297 million reported by the Department of Health for medical services provided by third schedule hospitals.
1995-96: Corresponding figures not reported.
- (c) 1996-97: Contracts with VMOs (\$273 million) excluded.
1995-96: Contracts with VMOs (\$264 million) included.
- (d) 1995-96: \$23 million in contracts for training programs reported by the Department of Training and Education Coordination.
1996-97: Corresponding figures not reported.
- (e) 1995-96: \$42 million in contracts for legal services reported by the Legal Aid Commission of NSW.
1996-97: Corresponding figures not reported.
- (f) 1995-96: NSW Technical and Further Education Commission reported \$148 million for contracts with part-time teachers.
1996-97: Corresponding figures not included as contract expenditure.
- (g) 1996-97: Department of Public Works and Services' contracting expenditure included in reported figures.
1995-96: Corresponding figure of \$11 million not available in time for 1995-96 report.

After making the appropriate adjustments to the reported figures for 1995-96 and 1996-97, the results obtained suggest that there was about a 10 per cent increase in contracting expenditure in 1996-97.

Figure 3.2.1 shows the top ten agencies which together accounted for 93 per cent of the annual contracting expenditure for 1996-97. The ranking's of these agencies in terms of expenditure correlate closely with those for value in Figure 3.1.1

Figure 3.2.1. Annual contracting expenditure by agency



Approximately 77 per cent of the Department of Health's contracting expenditure was for a range of health and welfare services - considered one of its principal activities.

Of the Department of Transport's annual contracting expenditure, 94 per cent was for 2,066 contracts for the provision of public transport services.

At the Department of School Education, 83 per cent of the contracting expenditure was for building and property services, mainly involving the cleaning of schools.

About three quarters of TAFE's contracting expenditure was on three services - building and property services (34 per cent), information technology and telecommunications (24 per cent), and training and education (15 per cent).

Almost half of the RTA's contracting expenditure was on 81 contracts involving infrastructure maintenance to the road network under its management.

3.3 Number of contracts

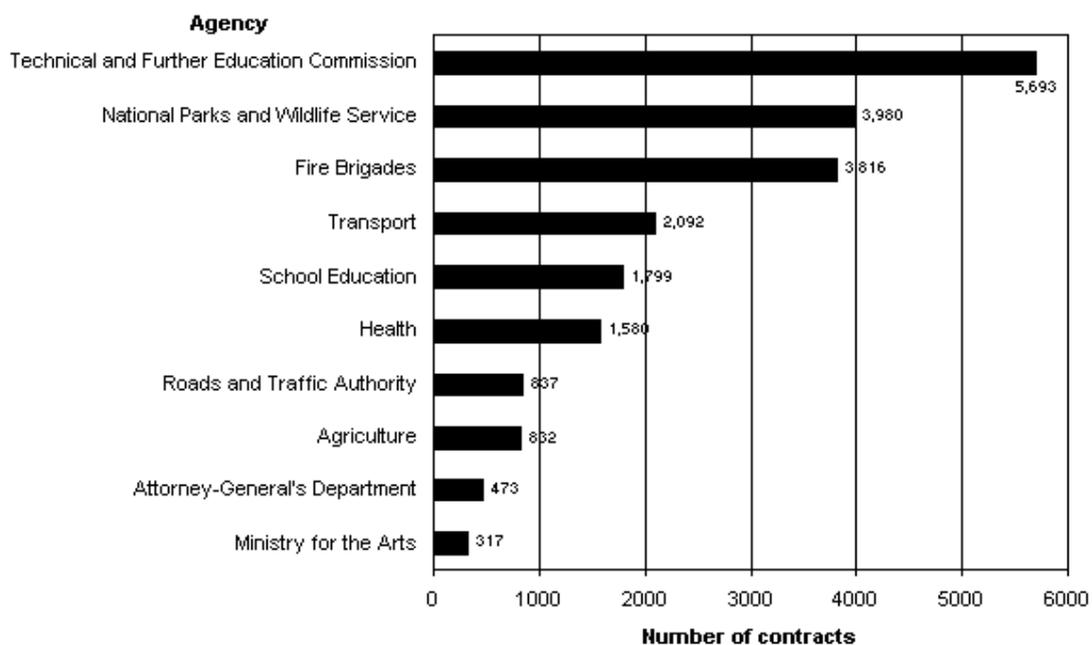
The agencies surveyed reported that 23,382 contracts were in operation during 1996-97. As shown in Figure 3.3.1, the largest number of contracts were reported by TAFE, the National Parks and Wildlife Service, and NSW Fire Brigades. Agencies with a large number of contracts were also likely to have reported large contracting expenditures.

Nearly half the number of contracts at TAFE (2,544) were for training and education services. Other services with a large number of contracts were equipment maintenance (802) and building and property services (690).

The National Parks and Wildlife Service reported that there were more than 3,000 contracts, with an annual expenditure in excess of \$26 million, for the maintenance of buildings, property, grounds and parks under its management. In particular, these included:

- maintenance of visitor facilities and walking tracks
- control of weeds and feral animals in parks
- fire management and maintenance of fire trails

Figure 3.3.1. Number of contract by agency



Nearly 60 per cent of contracts awarded by the NSW Fire Brigades were for maintenance and repairs to buildings and property.

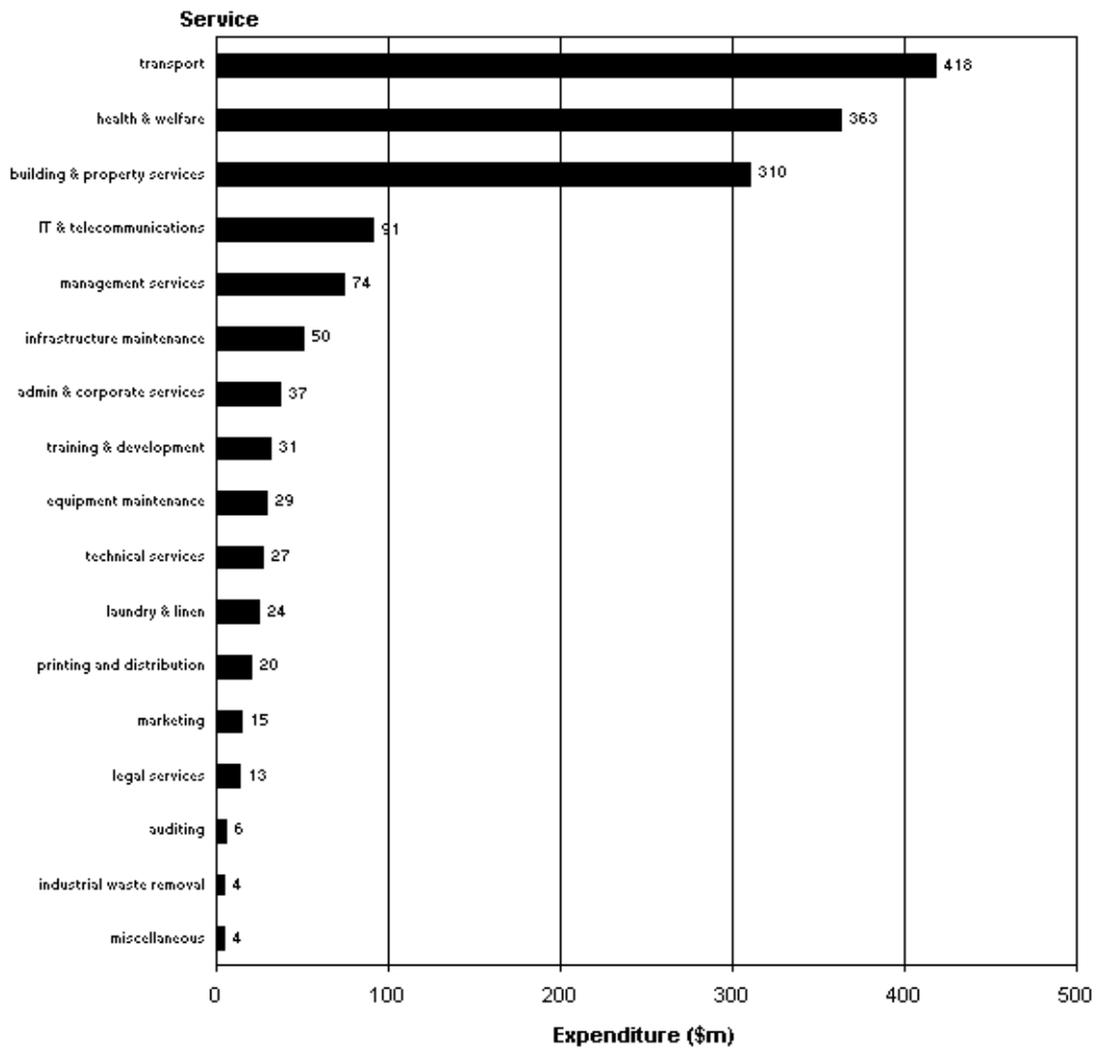
Almost all of the Department of Transport's contracts (2,066) were for the provision of public transport services, at an annual expenditure of \$347 million.

A large number of the Department of School Education's contracts (840) was for the conveyance of disabled students, at an annual expenditure of \$25 million. A similar proportion of the Department's contracts was for maintenance of its building and property.

3.4 Expenditure and number of contracts by service

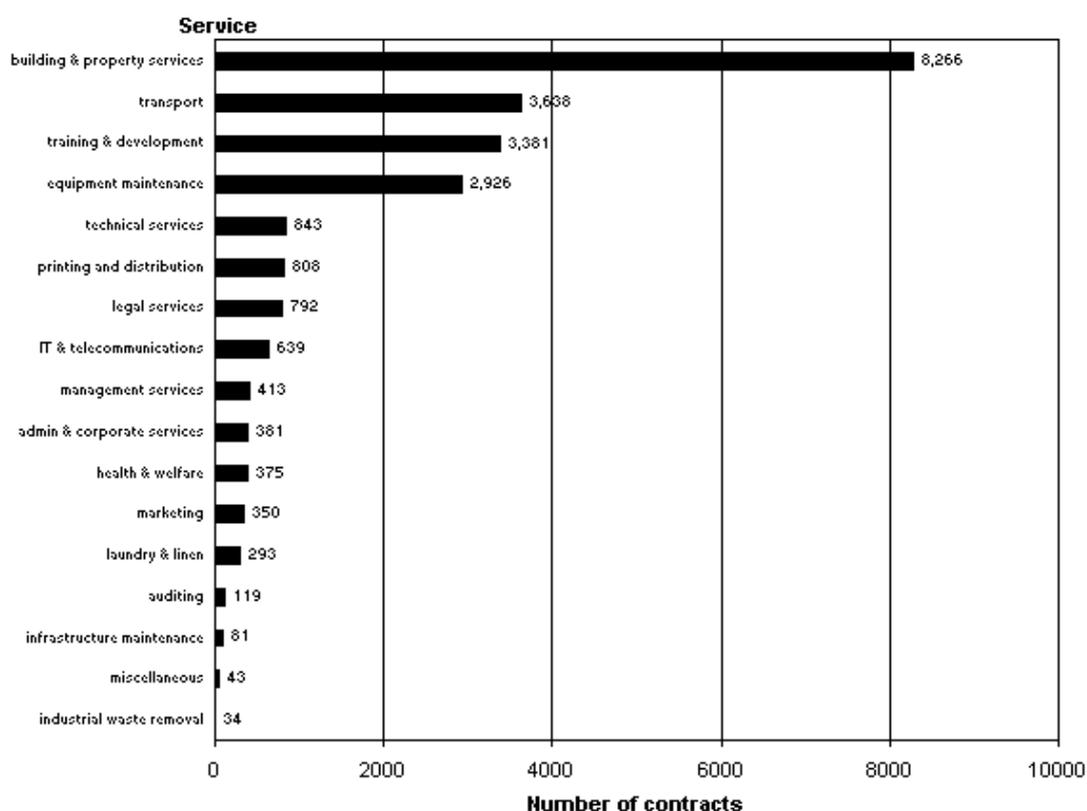
Of the 17 service categories identified, six had annual contracting expenditure figures in excess of \$50 million (see Figure 3.4.1). A further eight services had expenditures between \$10 million and \$50 million. Three services, including a miscellaneous category, had expenditures below \$10 million.

Figure 3.4.1. Annual contracting expenditure by service



There were in excess of 3,000 contracts each in building and property services, transport, and training and development, as shown in Figure 3.4.2. A large number of contracts were also reported for equipment maintenance (2,926), with the remaining services each having substantially fewer contracts.

Figure 3.4.2. Number of contracts by service



Transport services

Transport services accounted for 28 per cent of the total reported contracting expenditure. The bulk of this amount (\$347 million) was for 2,066 public transport service contracts awarded by the Department of Transport. In addition, the Department of School Education reported that there were 840 contracts for the conveyance of disabled students at an annual expenditure of \$25 million. TAFE reported a large number of freight transport contracts that incurred an expenditure of less than \$1 million.

Health and welfare

Although contracting for health and welfare services made up 24 per cent of the total annual contracting expenditure, almost all of this (99 per cent) was undertaken by the Department of Health. A large proportion of the expenditure for this service involved medical services provided by third schedule hospitals (\$297 million).

Building and property services

Building and property services accounted for 20 per cent of the total annual contracting expenditure, and 35 per cent of the total number of contracts. The main activity within this service was the cleaning of buildings (\$177 million, 296 contracts) and programmed maintenance of a range of equipment and assets that are integral to the functioning of buildings (\$91 million, 4026 contracts). The latter included air conditioning, fire protection and lift maintenance. Maintenance of grounds and parks was also a significant activity, which involved 3,529 contracts and an annual contracting expenditure of \$30 million.

Information technology and telecommunications

Most of the expenditure and number of contracts in the area of information technology and telecommunications was for maintenance and system support (\$29 million, 296 contracts). Half of the agencies which participated in the survey had contracts in this particular activity, the highest being the Department of Health with expenditure of \$10 million on 139 contracts. Applications development and customisation was also a significant activity with the expenditure of \$17 million on 105 contracts.

Equipment maintenance

Although a large number of contracts were awarded for equipment maintenance, the expenditure involved was comparatively small (\$29 million). One third of the contracts were for minor repairs to appliances at the NSW Fire Brigade, at an annual expenditure of \$3.5 million. TAFE also reported a large number of contracts (800) for maintenance of a wide variety of equipment at its institutes, at an annual expenditure of \$4.7 million.

Training and development

A large number of contracts was awarded for training and development, with 75 per cent of them attributable to TAFE. The main activities involved were:

- training of teaching staff
- course development
- guest lecturers
- miscellaneous classroom support and exam supervision

Management services

The annual expenditure incurred on the 413 contracts for management services was \$74 million. Of this amount, 25 per cent was on one contract for the operation of Junee Correctional Centre for the Department of Corrective Services. Of the total number of contracts, 28 per cent was for property management services at the NSW Fire Brigades, although the expenditure incurred on these was small (\$0.2 million).

Infrastructure maintenance

The Roads and Traffic Authority was the only agency to have contracts in the area of infrastructure maintenance. The largest of these was for road maintenance in north-east Sydney with an expenditure of \$22 million, accounting for 44 per cent of the total figure for this service.

Administrative and corporate services

Of the total expenditure and number of contracts for administrative and corporate services (\$37 million, 381 contracts), secretarial and support services accounted for 43 per cent and 70 per cent respectively. The largest contract (\$5.2 million) was for the provision of central corporate services at the Premier's Department.

Technical services

There were a total of 843 contracts for technical services with expenditure of \$27 million, but they were relatively small in expenditure terms. Most of the expenditure and contracts were with the Roads and Traffic Authority (\$18 million, 341 contracts), although the largest was a group of 278 contracts (\$3.1 million) for scientific survey and research at the National Parks and Wildlife Service.

Printing and distribution

Printing and distribution is also an area where relatively small expenditure was incurred on each contract. The largest expenditure and number was at TAFE where there was expenditure of \$7 million on 203 contracts, accounting for 35 per cent and 25 per cent of the total, respectively.

Legal services

One third of the agencies that participated in the survey had contracts for legal services. The largest of these was at the Attorney General's Department where 450 contracts with an expenditure of \$7 million, were implemented for the briefing of legal counsel. These accounted for 50 per cent of legal contracting expenditure and 57 per cent of contracts.

Marketing

There was a total of 350 contracts for marketing with expenditure of \$15 million. TAFE's advertising and promotions contracts accounted for 41 per cent of this expenditure and 59 per cent of the contracts. In terms of expenditure, advertising was the main involved, but the largest number of contracts was for promotional services.

Laundry and linen

The Department of Health had a few large single contracts for laundry and linen, thus accounting for 97 per cent of contracting expenditure but only 7 per cent of contracts. NSW Fire Brigades had the largest number of contracts - 225 contracts (\$0.4 million) for the dry cleaning of fire-fighting equipment.

Auditing

All auditing contracts had expenditures of under \$500,000 each, with 36 out of the 61 agencies having reported the use of such contracts. The Roads and Traffic Authority had 36 auditing contracts in operation with expenditure of \$0.7 million, accounting for 12 per cent of expenditure and 30 per cent of contracts.

Industrial waste removal

Of the \$4 million expenditure on 34 contracts for industrial waste removal, 65 per cent and 79 per cent, respectively, was accounted for by the Department of Health. The remaining contracts were awarded by the Department of School Education and Waterways Authority.

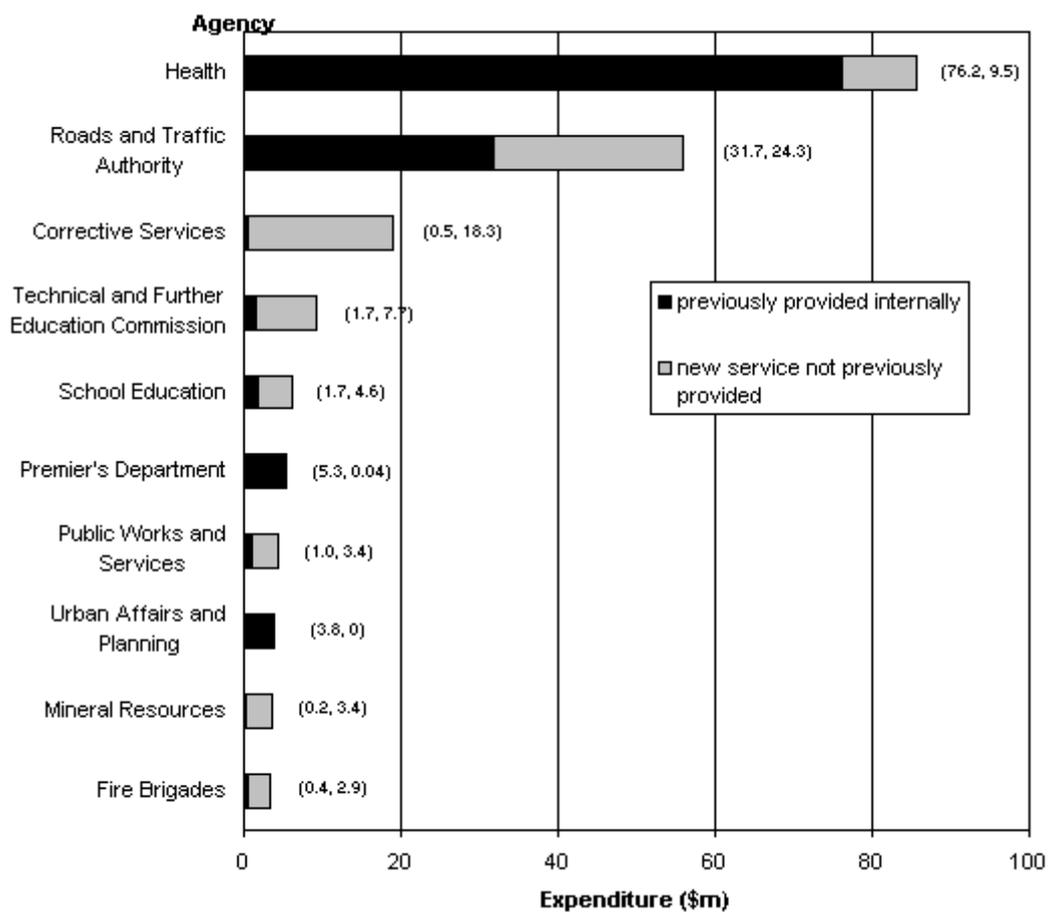
3.5 First-term contracts

The term **first-term** contracts covers two possibilities. The first of these relates to services which, immediately prior to contracting, were provided by the agency using its internal resources. Specifically, this use of internal resources would also have been the result of its earlier policy and on-going practice, rather than competitive tendering.

The other possibility involves new services, which had not been provided previously, and which were being sourced from the market using a contractual arrangement for the first time.

First-term contracts provide useful information on the rate of growth in contracting, by showing the addition of new contracts to the previously existing stock of contracts in the agencies surveyed.

Figure 3.5.1. Expenditure of first-term and continuing contracts by agency



There were 1,948 first-term contracts that together accounted for \$219 million of the total annual contracting expenditure. Figure 3.5.1 shows the expenditure and Figure 3.5.2 the number of first-term contracts in the agencies.

Breakdown by agency

The Department of Health reported that 89 per cent of its expenditure on first-term contracts was for services that had previously been provided internally. While 67 per cent of the

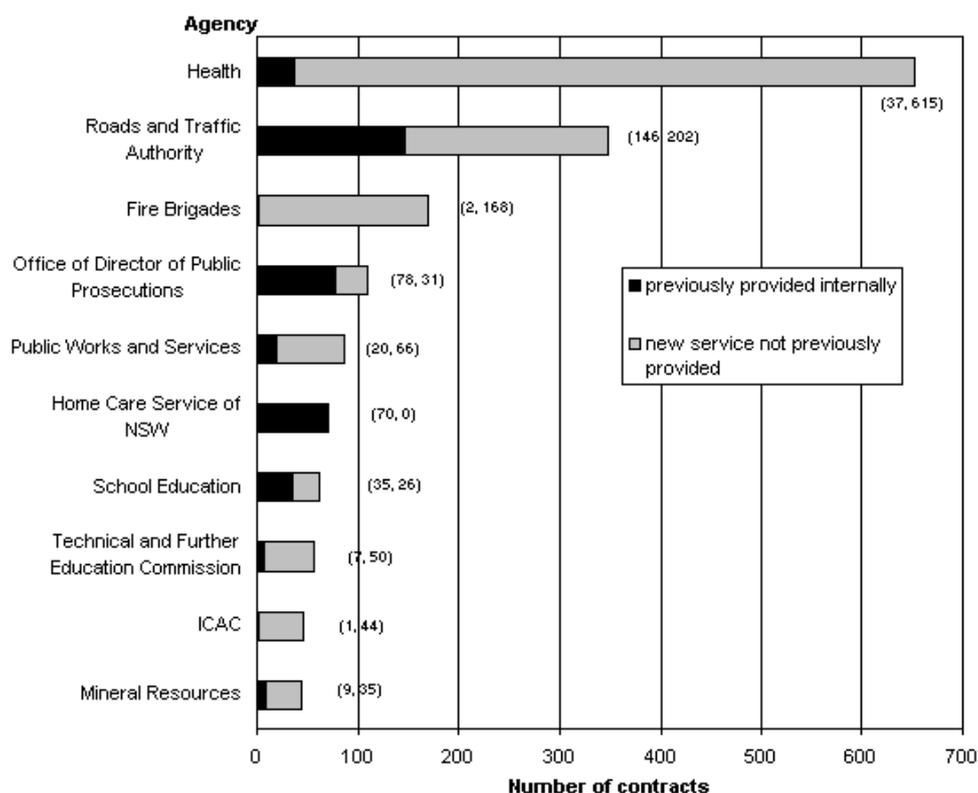
expenditure on first-term contracts was on health and welfare services, 16 per cent was spent on information technology and telecommunications.

The Roads and Traffic Authority reported a total of 348 first-term contracts, with 57 per cent of the expenditure involved relating to services that had previously been provided internally. Significantly, one large road maintenance contract, which is still in its first-term incurred an expenditure of \$22 million during the year.

The first-term expenditure reported for the Department of Corrective Services was dominated by the contract for the operation of Junee Correctional Centre (\$18 million), a service which was not previously provided and is now undertaken by the private sector.

TAFE's first-term expenditure was made up of a number of smaller contracts which combined to push the agency up to the fourth position in Figure 3.5.1. The largest was 5 contracts with expenditure of \$1 million for educational resource development.

Figure 3.5.2. Number of first-term contracts by agency



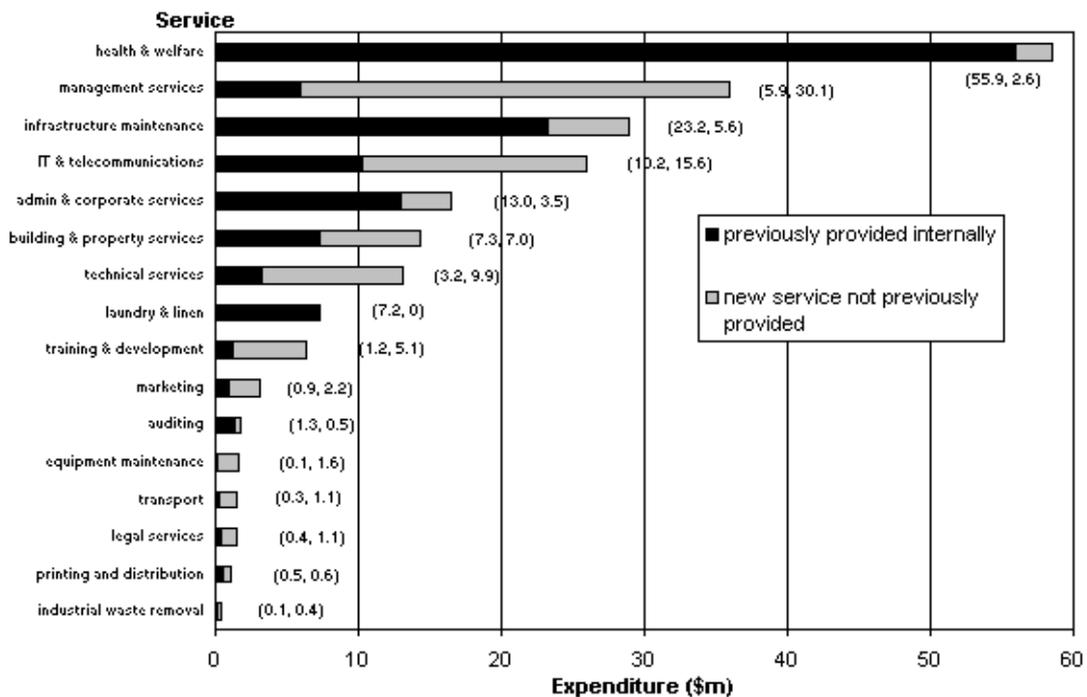
Most of the Department of School Education's first-term expenditure was on new services which had not been previously provided (73 per cent), although this applied to only 43 per cent of contracts. Most of the first-term contracts, in terms of expenditure, were for information technology and telecommunications (\$2.6 million) and management services (\$2.2 million).

The Premier's Department had one large contract for the provision of central corporate services with expenditure of \$5.2 million. This contract accounted for 97 per cent of the agency's first-term expenditure.

Most of the first-term expenditure and number of contracts at the Department of Public Works and Services were for services not previously provided (77 per cent in both measures). These included 15 contracts for policy development (\$0.8 million) and 12 contracts for engineering work (\$0.5 million).

The first-term expenditure reported by the Department of Urban Affairs relates to one contract for the provision of human resources and financial services with expenditure of \$3.8 million. The service was previously provided within the agency and now provided by the Department of Public Works and Services.

Figure 3.5.3. Expenditure of first-term contracts by service



Breakdown by service

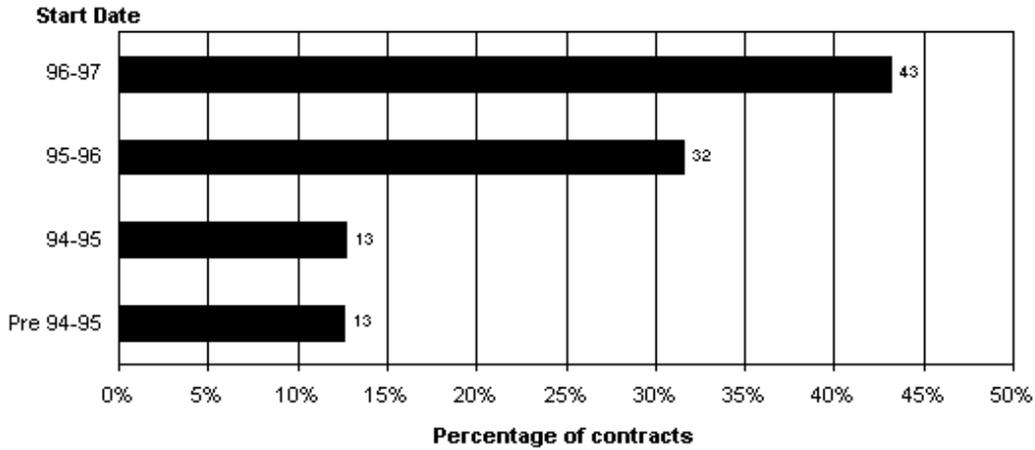
Figure 3.5.3 shows that the expenditure on first-term contracts was highest in health and welfare services, mainly due to initiatives at the Department of Health. A significant proportion of the expenditure on management services was for a contract awarded by the Department of Corrective Services to operate the Junee Correctional Centre. Road maintenance contracts awarded by the Roads and Traffic Authority made up a large component of the amount shown for infrastructure maintenance.

The first-term contracts in information technology and telecommunications included software development (\$6.3 million) and maintenance of software and hardware systems (\$2.3 million) at the Department of Health.

Commencement periods

The distribution of first-term contracts by their start dates in Figure 3.5.4 shows that most of these contracts have been awarded relatively recently. A significant proportion of the contracts commenced in 1996-97, with only 13 per cent of contracts pre-dating 1994-95.

Figure 3.5.4. Commencement of first term contracts



3.6 Contracting core and non-core services

In overall terms, 69 per cent of the contracting expenditure and 49 per cent of the number of contracts were classified as core services by the agencies surveyed.

Figure 3.6.1 shows the proportion of expenditure for each area of service which was considered as core. The services with the highest proportions are health and welfare, infrastructure maintenance and transport. This was attributable mainly to the Department of Health, Roads and Traffic Authority and Department of Transport, respectively.

Most areas of service had at least 20 per cent of contracting expenditure in core services, the exceptions being auditing, industrial waste removal and laundry and linen.

3.7 Selection of contractor

Tendering, that is open tender and selective invitation to tender, accounted for 63 per cent of the expenditure on contracting (see figure 3.7.1). In terms of number of contracts, 59 per cent were awarded by negotiation. However, these contracts made up only 21 per cent of the overall contracting expenditure, suggesting that negotiated contracts tended to be small when measured in expenditure terms. The State Contracts Control Board awarded a small number of contracts - 2 per cent in terms of number and 6 per cent in terms of expenditure.

Figure 3.6.1. Contracting expenditure classified as core by service

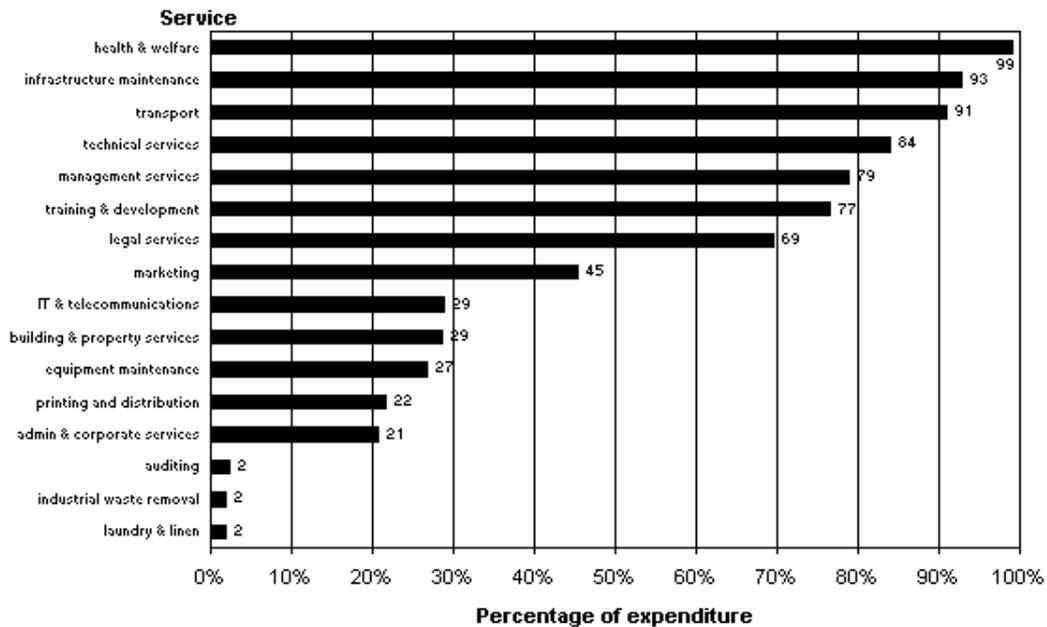
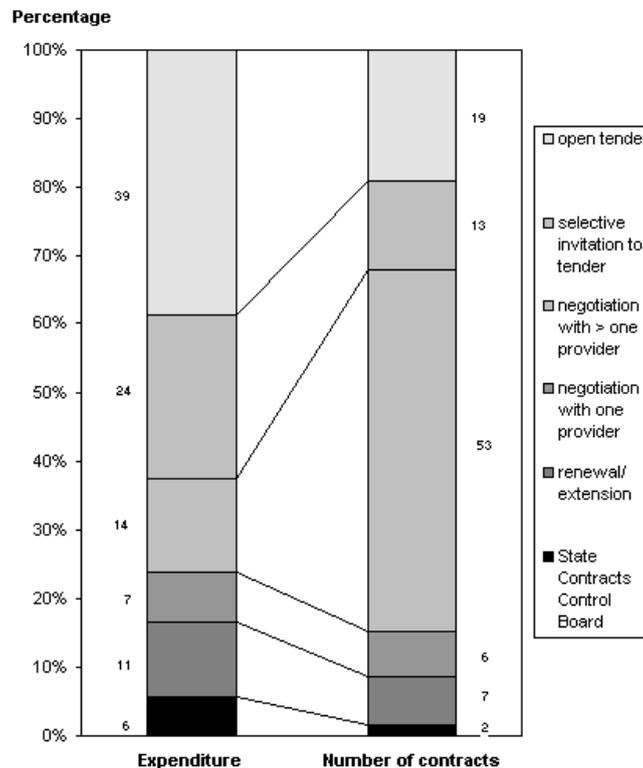


Figure 3.7.1. Selection of contractor



3.8 Type of service provider

Private sector contractors accounted for the largest proportion of contracts (69 per cent), with other government agencies and in-house teams accounting for only 18 per cent and 13 per cent of contracts, respectively.

As illustrated in Figure 3.8.1, 20 per cent of contracts for core services and 6 per cent of contracts for non-core services were awarded to the in-house teams from the agencies. The involvement of other government agencies was almost in reverse, with figures of 8 per cent and 28 per cent respectively. The private sector, however, accounted for the majority of contracts for core and non-core services.

Figure 3.8.1. Current provider of contracted core/non-core services

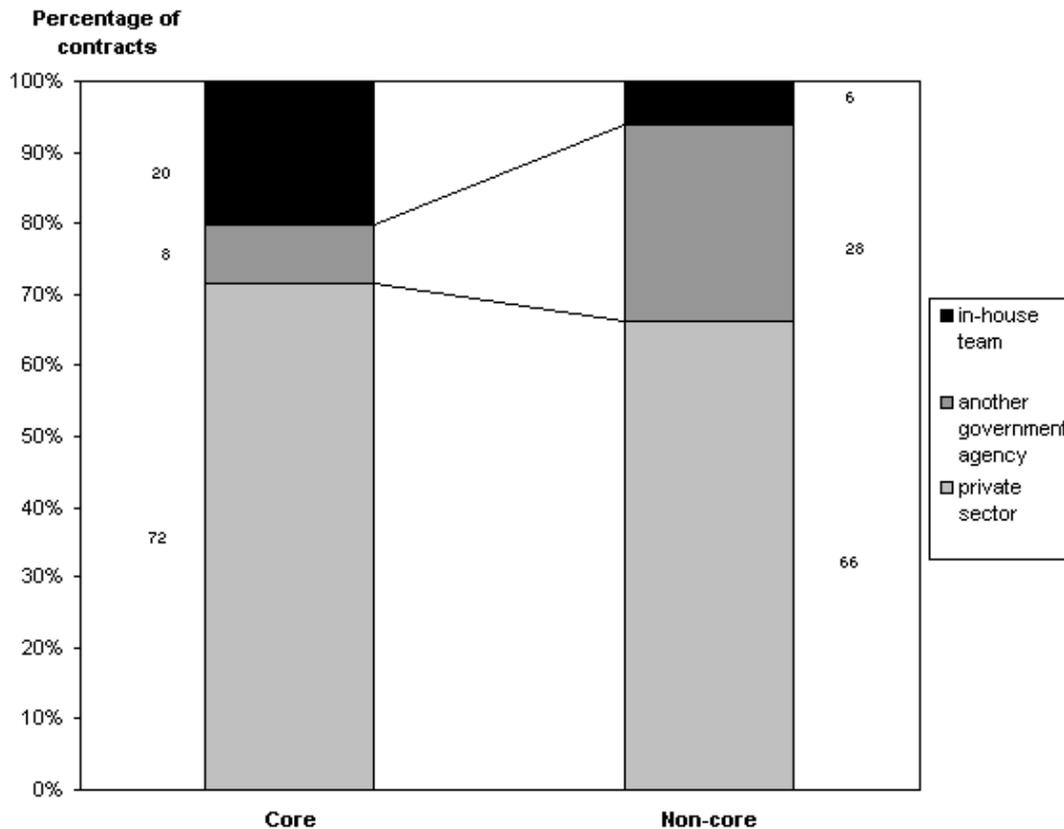
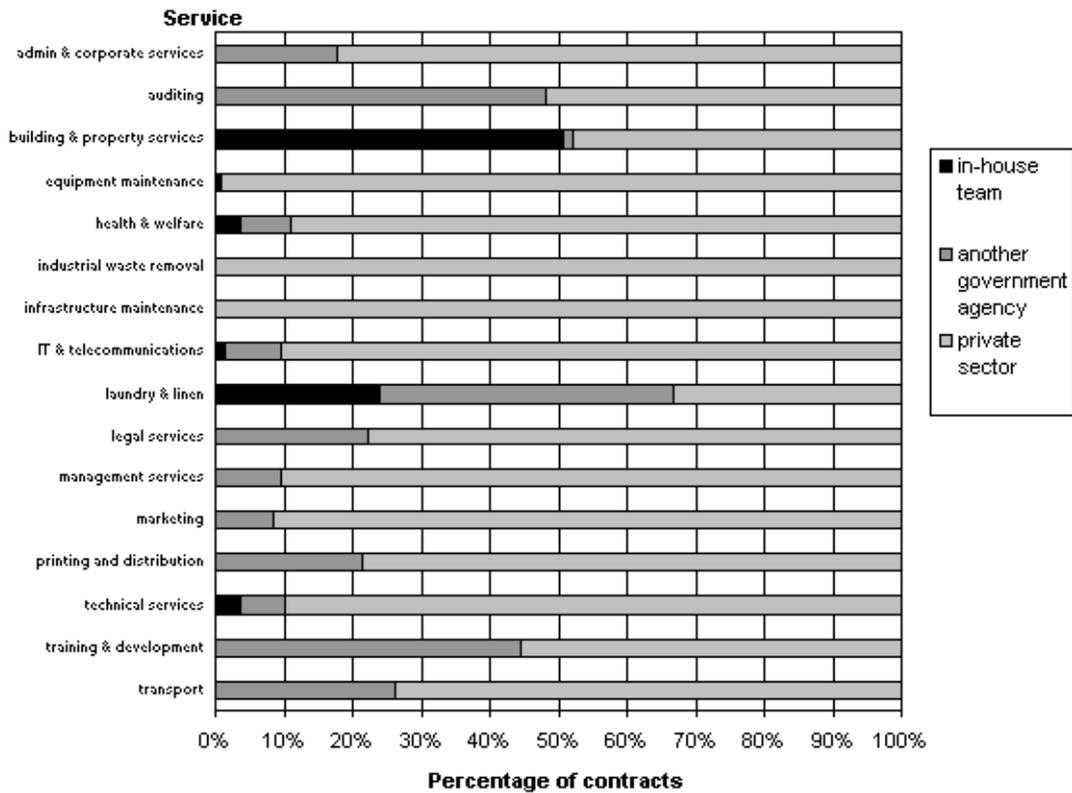


Figure 3.8.2 illustrates the involvement of the three categories of service providers for each service. Activities of the in-house teams were concentrated in building and property services, and laundry and linen. Other government agencies had a presence in most services, except building and property services, equipment maintenance, industrial waste removal and infrastructure maintenance.

Figure 3.8.2. Current provider by service



Services previously provided by other government agencies were less likely to be provided by a different type of provider in subsequent agreements, than if they had previously been undertaken internally (see Figure 3.8.3). In the latter case the migration was overwhelmingly towards the private sector. This was also the case with new services (previously not provided), with 88 per cent of contracts going to the private sector.

Figure 3.8.4 shows that most of the internal staff were either retained by the agency or re-employed by the contractor soon after a service they had previously provided contracted out. One fifth of staff resigned or accepted voluntary redundancy, and only 8 per cent were redeployed to other agencies.

Figure 3.8.3. Migration from previous provider to current provider

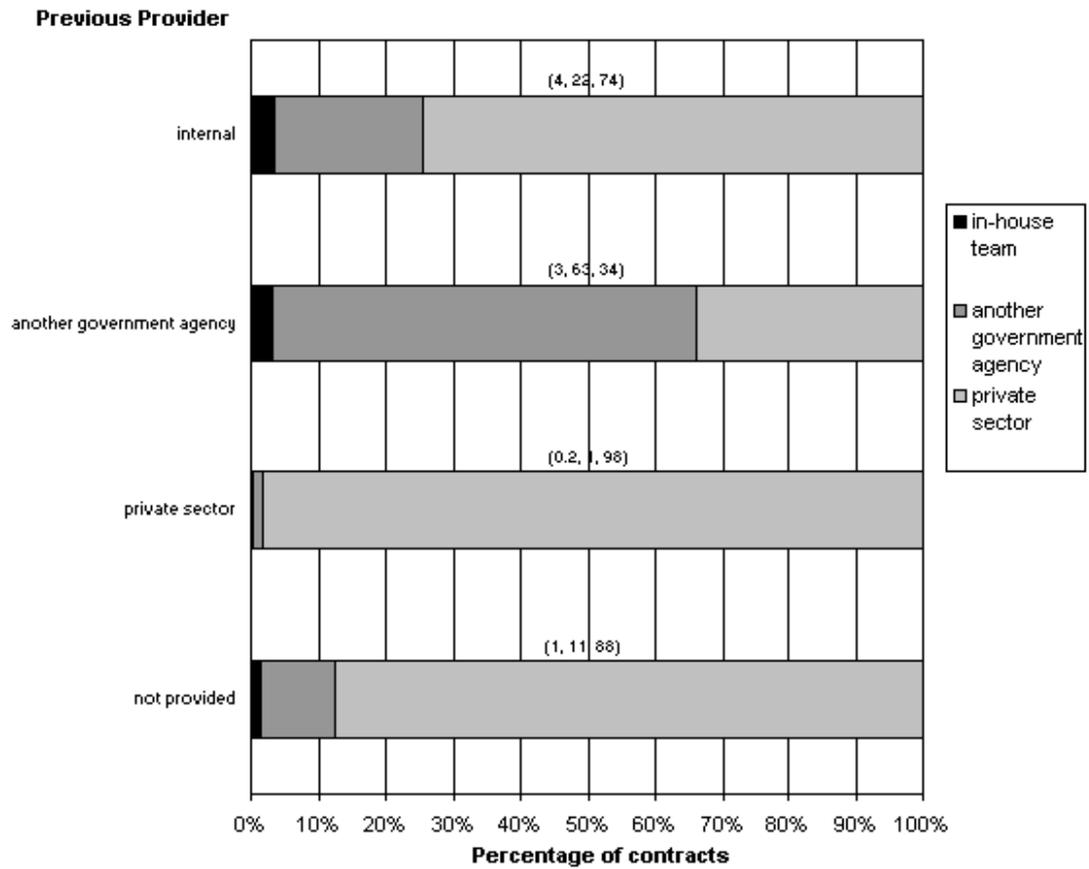
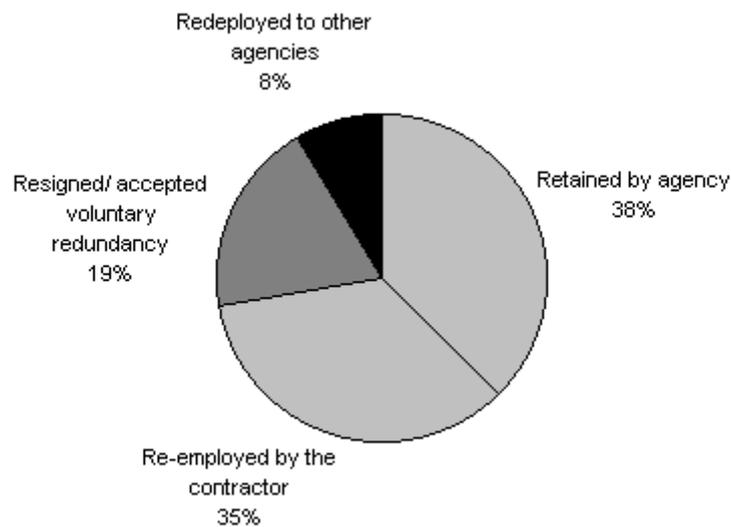


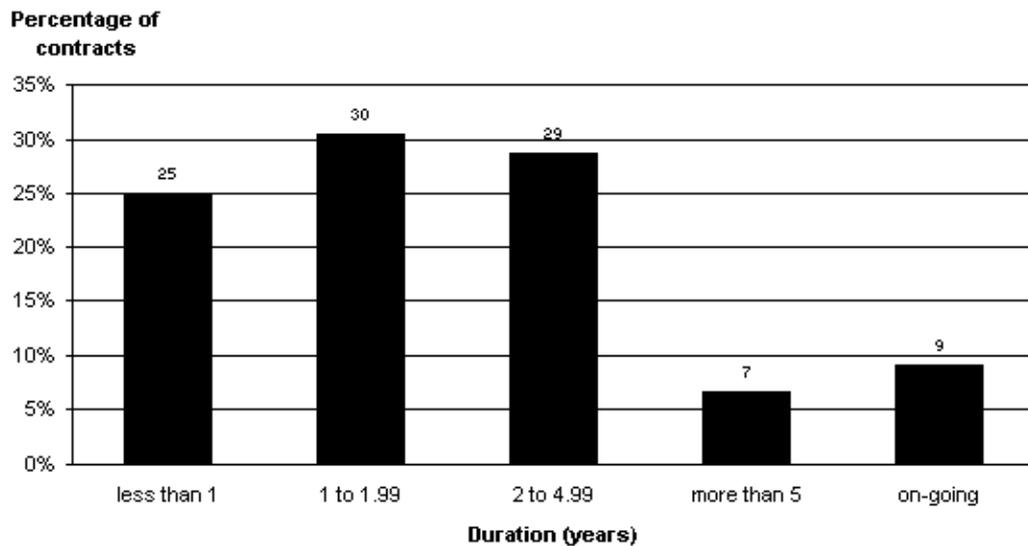
Figure 3.8.4. Distribution of internal staff following contracting



3.9 Contract term

Approximately 84 per cent of contracts were specified for terms of up to 5 years. Only 7 per cent of contracts had terms beyond 5 years, and 9 per cent of contracts were on-going or without a fixed term (see Figure 3.9.1). Information technology and telecommunications and administrative and corporate services together accounted for more than half the contracts. A large number of contracts without a fixed term were also used for building and property services.

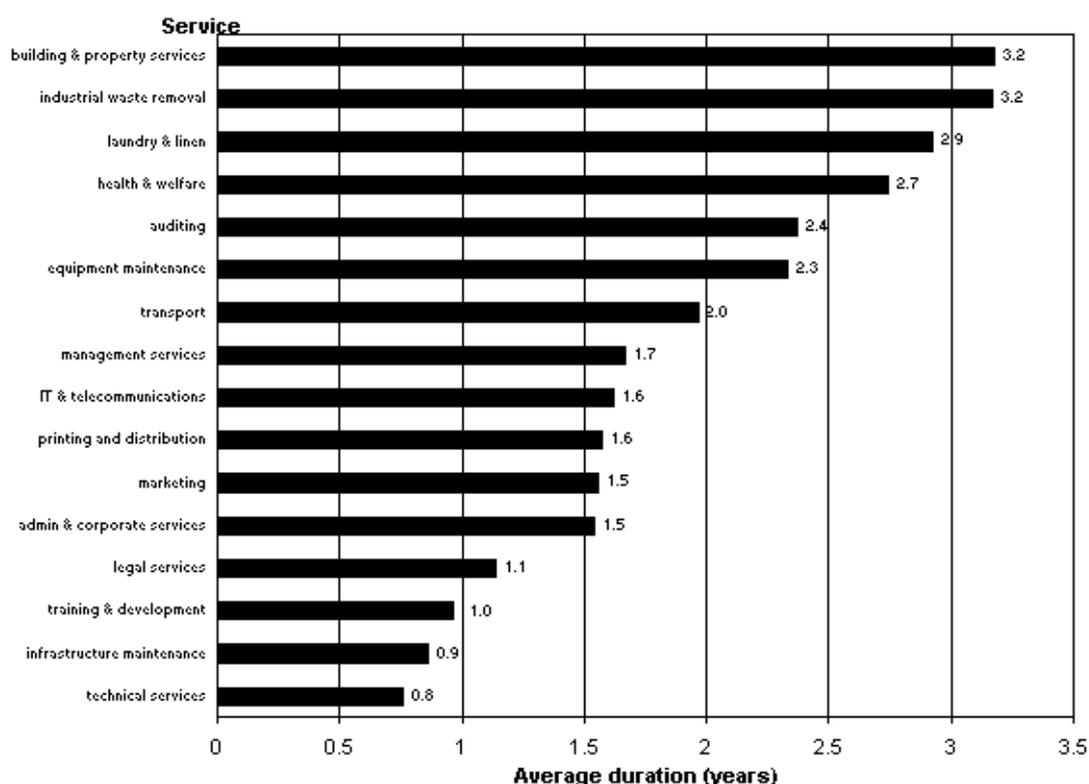
Figure 3.9.1. Distribution of contract duration



Contract duration by service

Building and property services and industrial waste removal had the longest contract terms, each averaging 3.2 years. Figure 3.9.2 shows that most services had contract terms ranging from 1 to 3 years. Contracts for infrastructure maintenance and technical services were, on average, less than a year in duration.

Figure 3.9.2 Average duration of contracts by service



3.10 Contract pricing

Distribution of contract price

More than 38 per cent of contracts each had an annual expenditure of up to \$100,000 (see Figure 3.10.1). Contracts with an annual expenditure of up to \$0.5 million accounted for 83 per cent of the sample. There were few contracts with annual expenditure figures exceeding \$1 million.

Pricing methods

Contracts for which the prices were **fixed**, that is either annual or total accounted for 29 per cent of contracting expenditure and 37 per cent of the number of contracts (see Figure 3.10.2). Almost half of contracts in terms of both expenditure and number were **schedule of rates** type contracts, where the amount involved depended on an appropriate measure of the volume of work undertaken by the contractor. The remainder was made up of contracts with a combination of both fixed and variable components.

Contracts for industrial waste removal and laundry and linen were among those that relied most on schedule of rates pricing. As shown in Figure 3.10.3, the extent to which schedule of rates based pricing applied varied greatly across services.

Figure 3.10.1. Distribution of contract price

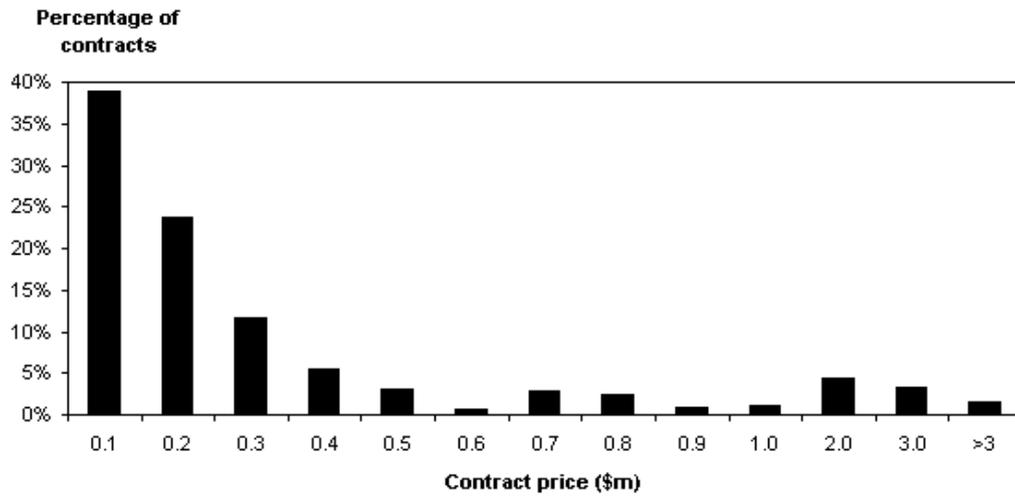


Figure 3.10.2. Pricing methods

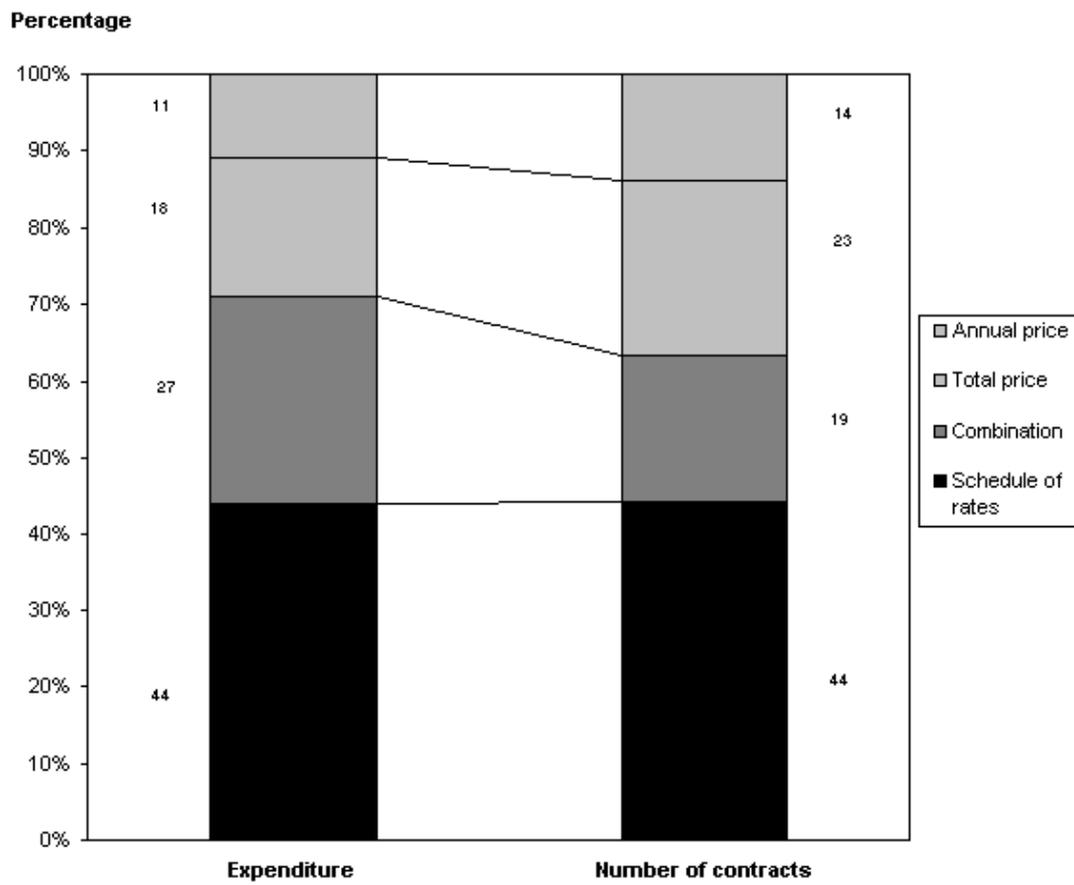
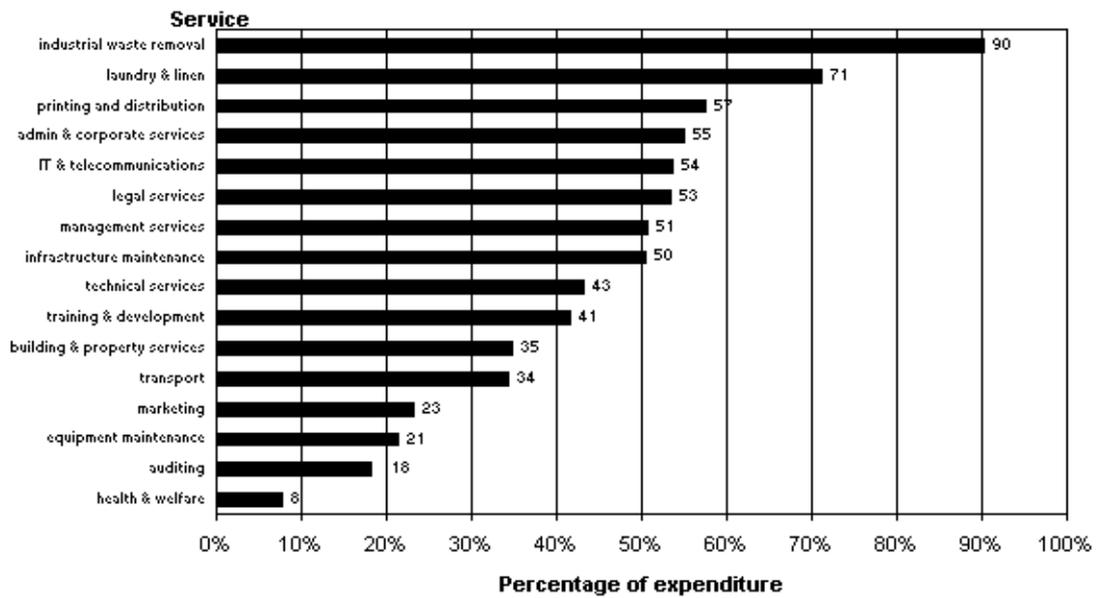


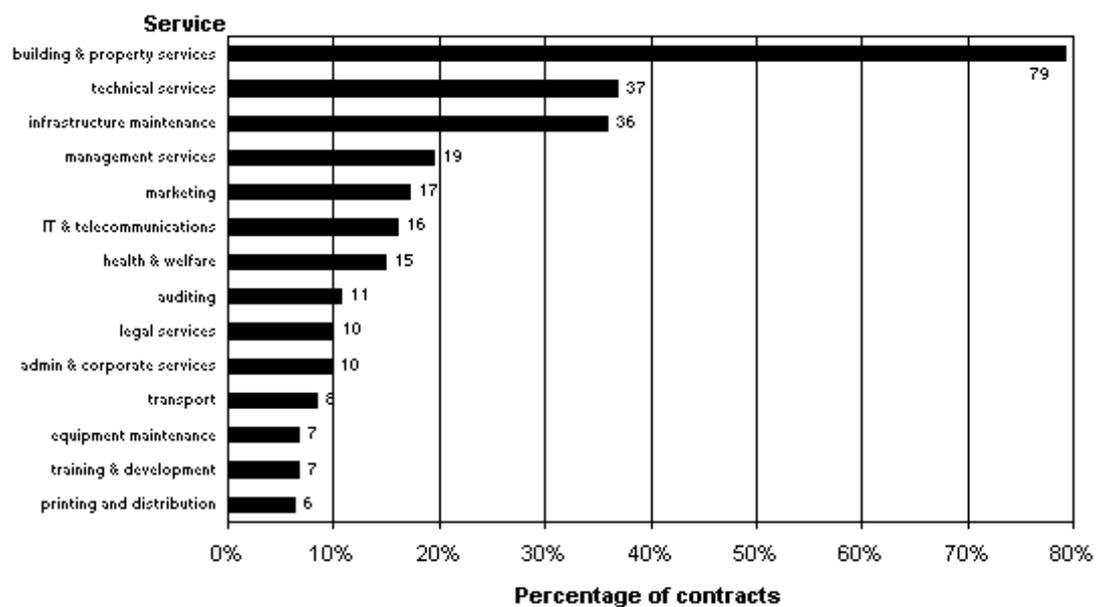
Figure 3.10.3. Schedule of rates contracts by service



Price variations

Nearly half the contracts incurred price variations, almost all of these due to changes in contract specification. The proportion of contracts that incurred price variations was markedly different across services, as illustrated in Figure 3.10.4. Contracts for building and property services, technical services and infrastructure maintenance were the most likely to experience price variations. Equipment maintenance, training and development and printing and distribution were among the services with the lowest frequency of contract variations. No contract variations were reported for laundry and linen and industrial waste removal.

Figure 3.10.4. Proportion of contracts with variations by service



3.11 Savings from contracting

Many survey responses did not contain sufficient information to allow the level of savings achieved from contracting to be calculated. Based on the small sample of responses that did provide adequate information, it is possible to report that the level of savings achieved with contracting approximated 18.9 per cent.

3.12 Cost of managing contracts

In overall terms, the agencies surveyed reported that their internal cost of managing contracts averaged 2.3 per cent of contract expenditure.

There was a wide distribution of contract management costs, as plotted in Figure 3.12.1. Although, it did vary by service, a closer examination found that management cost was clearly a function of the size of the contract. As shown in Figure 3.12.2, contract management cost was as high as 6.4 per cent for contracts below \$100,000 and as low as 0.9 per cent for contracts exceeding \$2 million.

Figure 3.12.1. Distribution of management costs

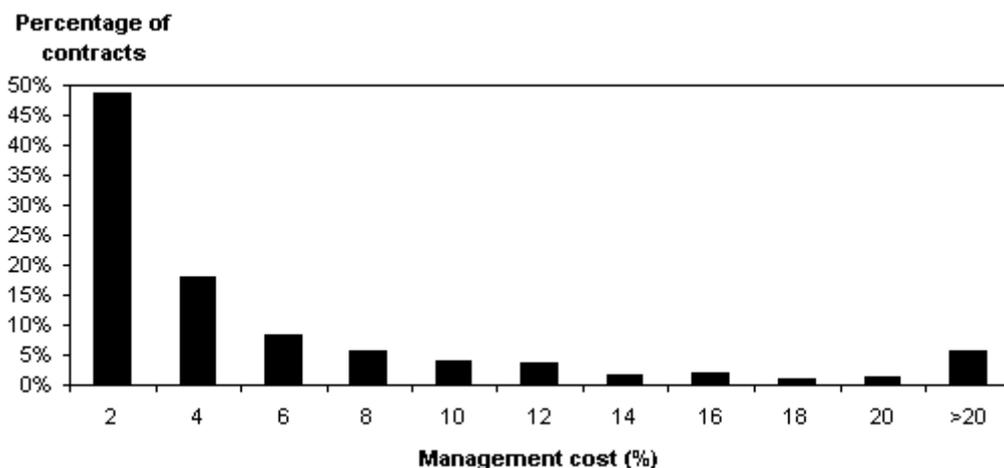
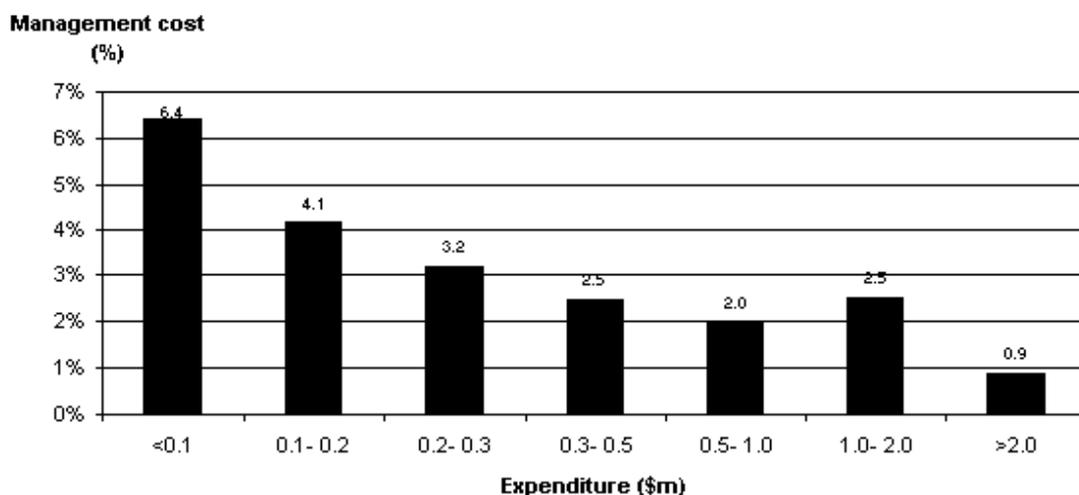


Figure 3.12.2. Average management costs by expenditure

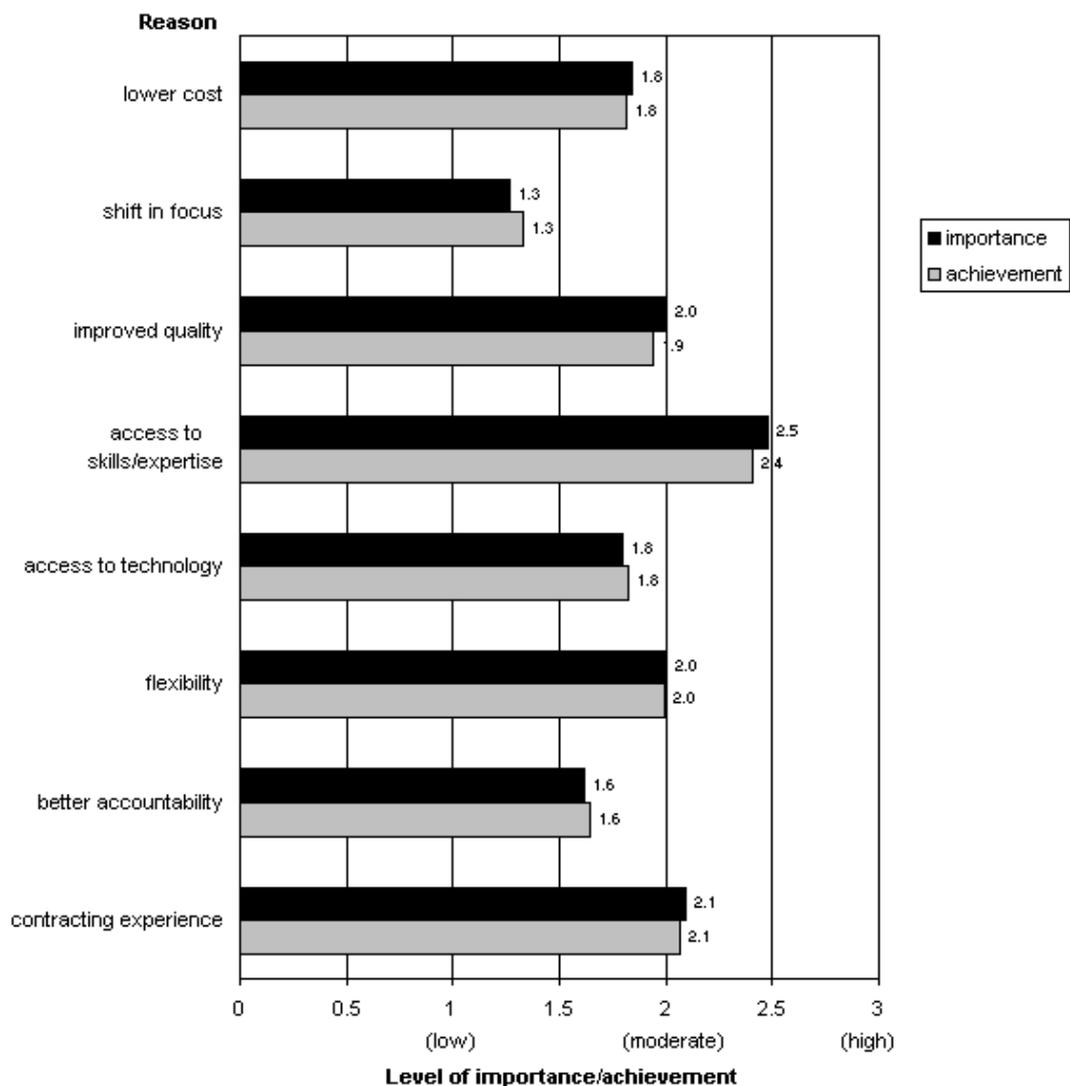


Contracts for services provided by other government agencies had higher average management costs (3.0 per cent) than those provided by in-house teams (1.1 per cent) and the private sector (2.2 per cent).

3.13 Reasons for contracting

The agencies rated a number of reasons for contracting in terms of their importance and extent to which each had been achieved in each of the contracts. The overall results for the sample are plotted in Figure 3.13.1. The results suggest that, of all the reasons offered for contracting, survey respondents rated **access to skills and expertise** as the most important and the highest achieved. Contracting **experience, flexibility** with changing requirements and improved **quality** that resulted from the contracting process were the other reasons that rated highly.

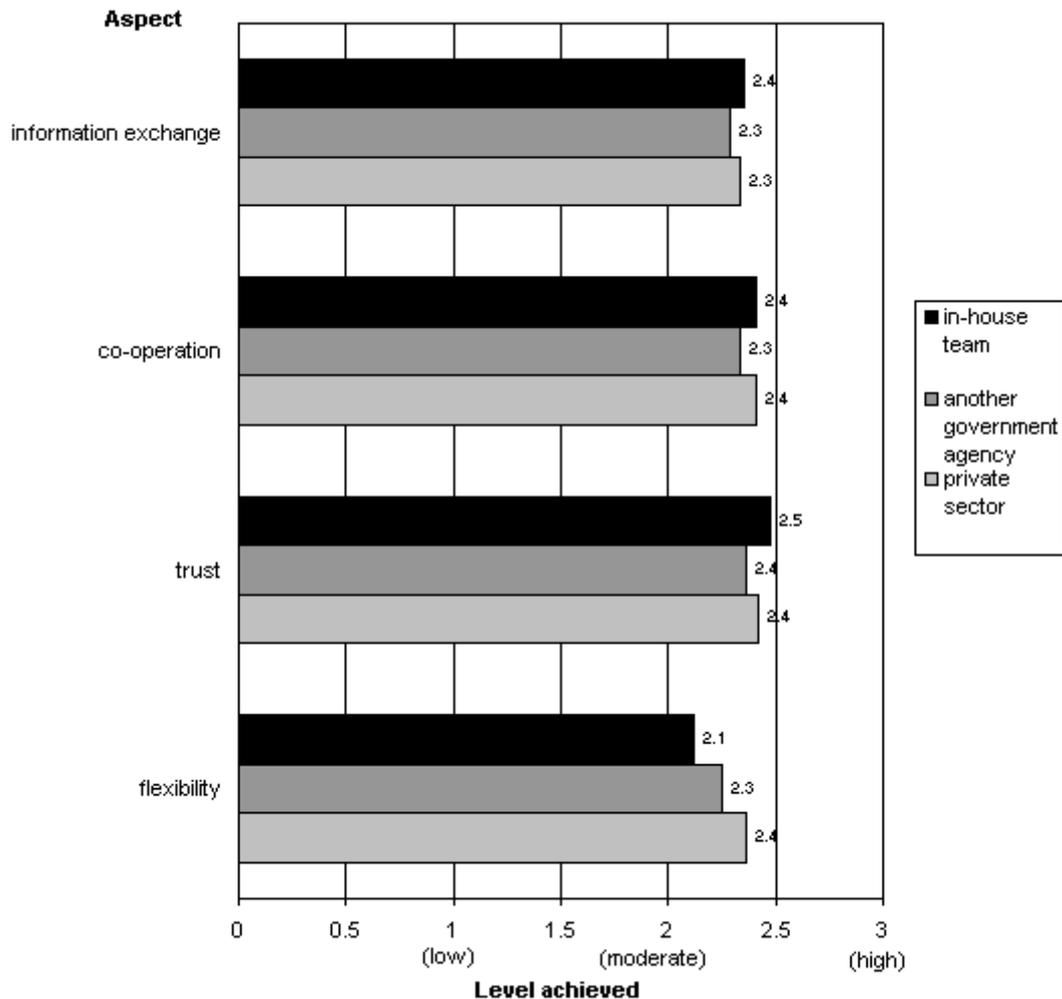
Figure 3.12.2. Average management costs by expenditure



3.14 Contractual relationship

Survey respondents were required to rate four aspects of the contractual relationship. **Trust** rated highest in terms of its importance and level of achievement. Figure 3.14.1 shows the achievement rating for each aspect, by type of service provider. In-house teams were the highest achievers for three out of the four aspects, but scored the lowest for **flexibility**. Also private sector providers tended to rate slightly higher than other government agencies.

Figure 3.14.1. Achievement of aspects of relationship by service provider

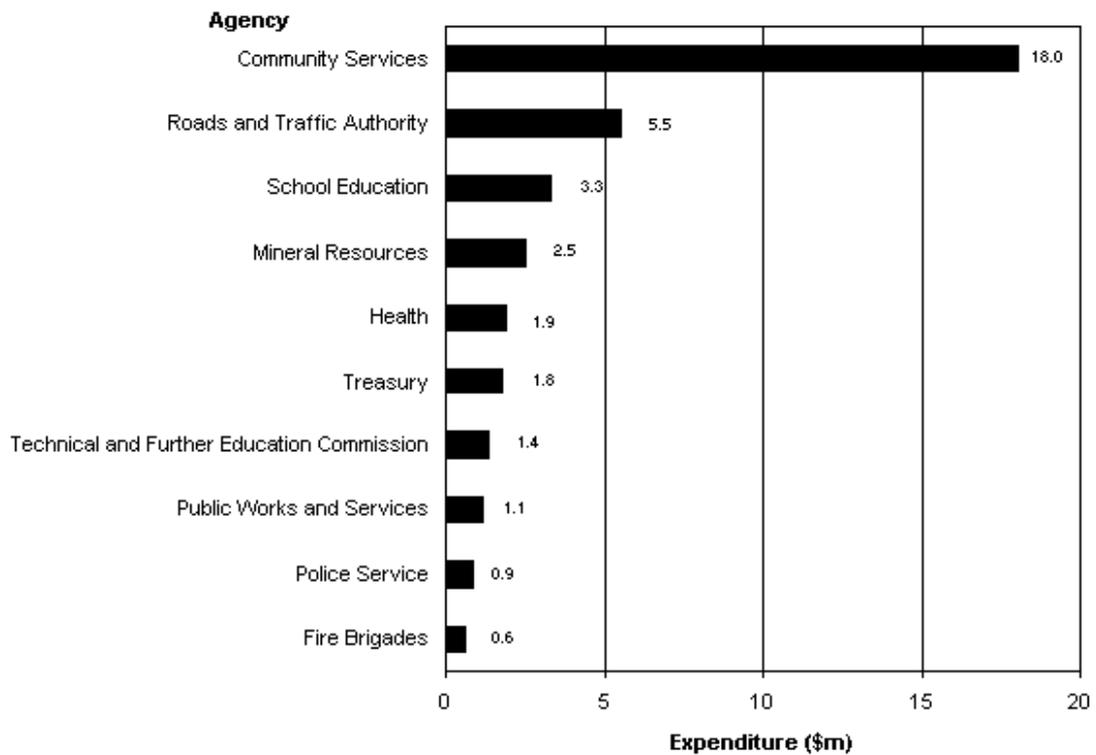


3.15 New contracts planned for 1997-98

Expenditure on new contracts

The agencies projected an increase in contracting expenditure of \$39.4 million over the 1997-98 financial year. This was based on the addition of **new contracts** to the stock of contracts already in operation in 1996-97. Of the projected expenditure, 36 per cent will be for services that have not previously been provided.

Figure 3.15.1. Projected expenditure on new contracts by agency



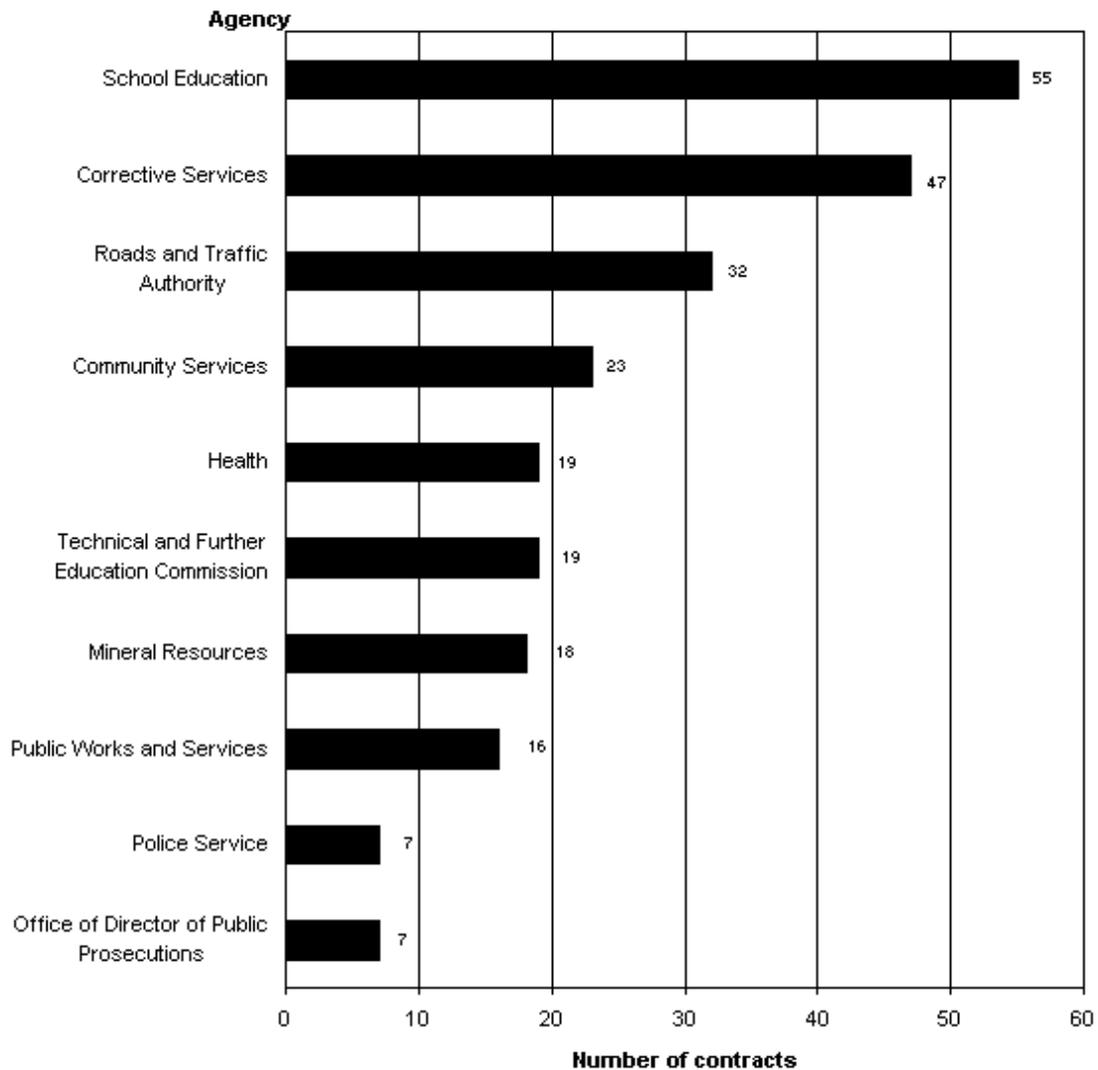
As shown in Figure 3.15.1, the largest increase is expected in the Department of Community Services, where \$11.5 million is to be spent on a contract for information technology and telecommunications cabling services. An annual expenditure of \$6.2 million is also expected on 15 contracts for care services to be provided to young people. Both of these services were previously undertaken with the agency's internal resources.

The Roads and Traffic Authority has also reported a significant increase in contracting expenditure for 1997-98. This is expected in a variety of service areas including a \$1.5 million contract for management services.

Number of new contracts

The agencies expect to implement 293 contracts over the 1997-98 financial year. One third of these were reported by the Department of School Education and Department of Corrective Services (see Figure 3.15.2).

Figure 3.15.2. Projected number of new contracts by agency



The Department of School Education expects to implement 47 contracts with a combined projected expenditure of \$0.6 million for the monitoring and maintenance of alarm systems.

The Department of Corrective Services plans to spend \$0.2 million on 35 contracts for the provision of health and welfare programs for inmates.

Breakdown by service

Figure 3.15.3 and Figure 3.15.4 show that the four areas of service expected to see the largest increases are:

- information technology and telecommunications (\$16.4 million; 37 contracts)
- health and welfare (\$6.7 million; 22 contracts)
- management services (\$3.5 million; 43 contracts)
- technical services (\$3.3 million; 39 contracts)
- training and development (\$2.5 million; 18 contracts)
- building and property services (\$2.5 million; 68 contracts)

Figure 3.15.3. Projected expenditure on new contracts by service

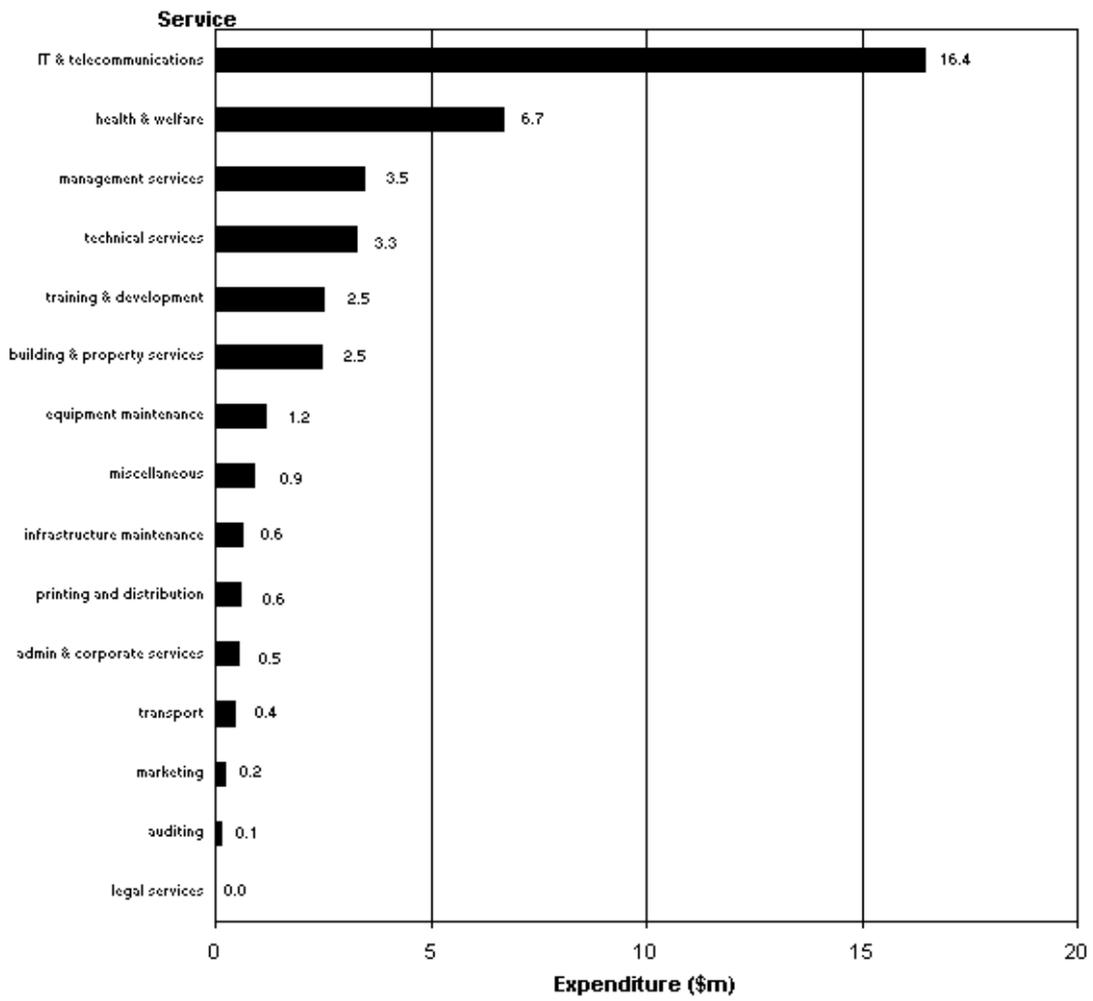
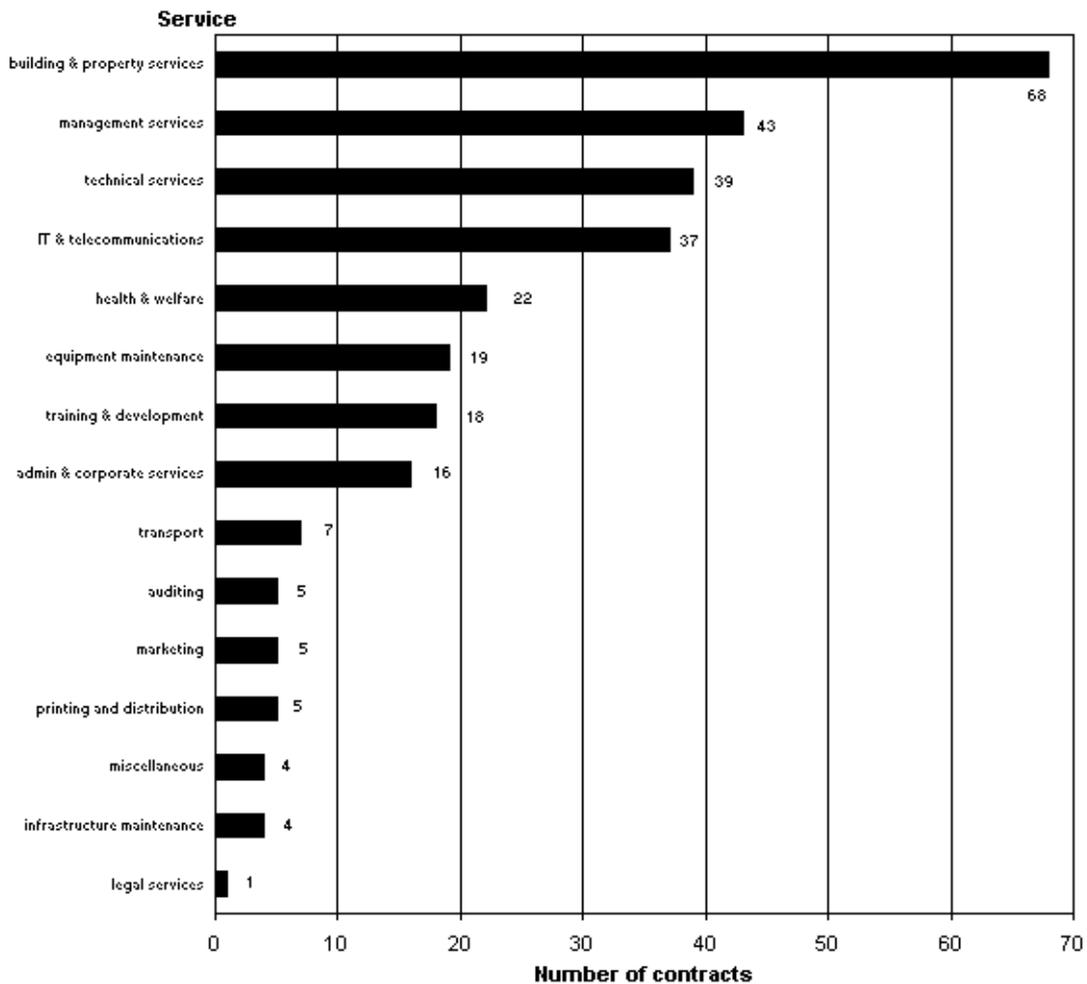


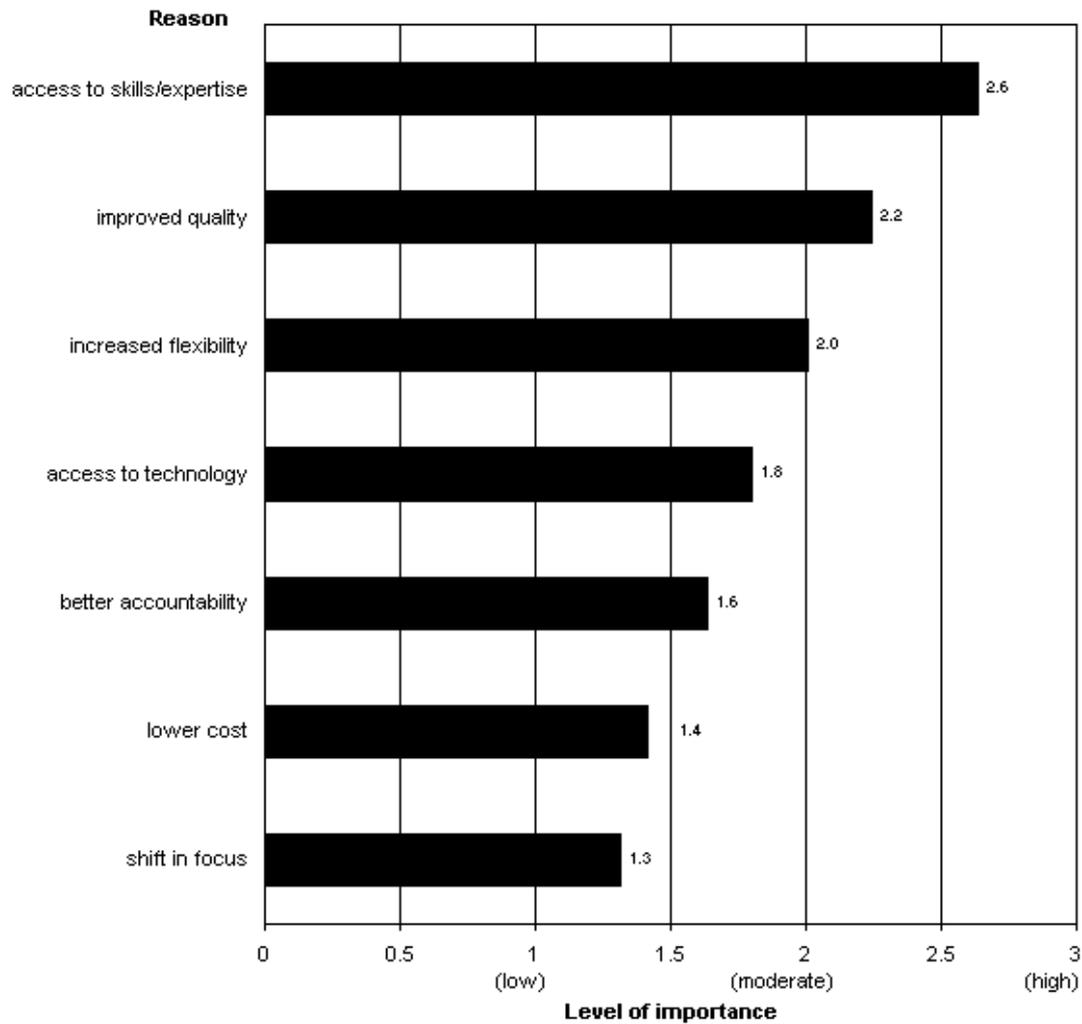
Figure 3.15.4. Projected expenditure of new contracts by service



Reasons for contracting

Access to skills and expertise rated higher than the other factors as the most important reason for the initiating new contracts in 1997-98 (see Figure 3.15.5). **Improved quality** was the next most important reason, while **lower cost** and **shift in focus** were rated as the least important of the reasons surveyed. In the 1995-96 survey, 90 per cent of respondents rated lower cost (termed as 'efficiency' in the report) as important or very important. This compared well with corresponding figures for improved quality (termed as 'effectiveness') and a lack of skills/expertise as reasons for contracting. However, the results in this report suggest that lower cost is no longer held up as the main reason for contracting.

Figure 3.15.5. Importance of reasons for new contracts in 1997-98



Footnotes:

3) The summary information provided by agencies (in Form D of the questionnaire) suggests that the number of unreported contracts, valued at less than \$50,000, was significant in some agencies. The results presented here may therefore understate the level of contracting activity in some cases.

4) Refer "Contracting for Services in the NSW Public Sector: 1996 Survey Findings", NSW Treasury Research and information Paper TRP 97-2.

5) Although service agreements may have been used when the providers were other government agencies or in-house teams, these agreements have been classified as contracts for the purposes of reporting. In addition, where the term "in-house team" has been used, it refers to an internal service provider that was selected following a competitive process. Where competition was not involved, the term "internal provision" has been used instead.

4. Conclusion

The 1996-97 survey of contracting for services in the Budget Sector of NSW Government achieved a favourable response rate. In general, the quality of information provided by the agencies was of a sufficient level of detail to permit analysis and interpretation of the results.

The value of contracts that operated in the surveyed NSW agencies in 1996-97 was estimated to be \$2,733 million. About half of this (\$1,518 million) was spent in 1996-97 for services that had already been delivered. In total, there were 23,382 contracts in operation during the year.

Agencies indicated that the level of contracting activity can be expected to increase in 1997-98. Qualitative measures contained in the survey suggest that reasons other than cost were most important in the decision to contract services.

Appendix A

Table A.1 Contracting activity (1996-97)

Agency	Value of contracts (\$'000)	Annual expenditure (\$'000)		Contracts		Annual expenditure on Services (internal & contract) (\$'000)
		1996-97	1995-96	1996-97	1995-96	
Ageing and Disability Department	3,403	3,123	2,588	14	7	26,097
Attorney-General's Department	21,556	13,642	6,416	473	57	435,093
Bicentennial Park Trust	293	10		1		1,586
Cabinet Office	185	185	185	1	1	1,095
Casino Control Authority						1,919
Centennial Park and Moore Park Trust	1,862	1,464	800	42	44	
Coal Compensation Board	128	105		2		
Community Services Commission	334	102	52	2	1	665
Department for Women	44		19		2	220
Department of Aboriginal Affairs	45					251
Department of Agriculture	10,789	8,635	9,214	832	289	176,641
Department of Community Services (1)	35,199	15,199	239,145	72	2638	440,496
Department of Corrective Services	30,211	27,149	25,433	57	33	41,859
Department of Energy	2,602	737	1,496	2	1	9,897
Department of Fair Trading	4,980	4,645	902	268	41	
Department of Health (2)	933,589	464,028	160,523	1580	578	5,541,827
Department of Industrial Relations	4,352	1,988	1,777	31	8	27,385
Department of Juvenile Justice	4,300	4,024	447	22	76	
Department of Local Government	125	94	100	1	3	17,721

Department of Mineral Resources	10,263	4,139	6,301	51	25	29,913
Department of Public Works and Services (3)	21,988	20,399	11,097	220	34	141,099
Department of School Education	819,749	236,782	226,549	1799	1704	394,659
Department of Sport and Recreation	2,404	1,830	1,249	14	13	32,722
Department of Training and Education Co-ordination (4)	1,630	1,502	23,439	13	193	
Department of Transport	367,181	367,181	294,384	2092	2091	385,702
Department of Urban Affairs and Planning	5,336	5,336	320	58	11	
Environment Protection Authority	1,979	557	1,040	17	30	42,153
Ethnic Affairs Commission						10,629
Health Care Complaints Commission	159	61		4		4,633
Home Care Service of NSW	3,473	3,419	1,694	75	66	129,468
HomeFund Commissioner's Office			100		1	3,239
Independent Commission Against Corruption	3,834	2,688	1,398	173	113	10,230
Independent Pricing and Regulatory Tribunal	8					171
Judicial Commission of NSW			50		1	2,946
Legal Aid Commission of NSW (5)	869	338	42,642	18	4233	3,418
Ministry for Police	802	636		9		
Ministry for the Arts	12,982	7,972	5,802	317	77	42,615
National Parks and Wildlife Service	39,803	38,543	11,635	3980	2353	125,934
NSW Crime Commission	171	94	149	10	7	1,039
NSW Fire Brigades (6)	31,235	15,822	4,372	3816	72	240,637
NSW Fisheries	1,928	977	1,070	38	43	28,377
NSW Ombudsman	427	68	191	99	3	5,589
NSW Police Service	31,895	17,921	21,253	112	78	

NSW Registry of Births Deaths and Marriages	482	98	1,768	2	8	1,299
NSW Technical and Further Education Commission (7)	135,846	115,016	241,851	5693	8034	1,202,457
Office of Marine Administration (8)	1,938	1,651	3,574	16	57	6,450
Office of the Board of Studies	6,337	3,755	4,731	27	19	60,101
Office of the Director of Public Prosecutions	1,304	889	405	154	11	41,766
Parliamentary Counsel's Office	88	88	39	1	4	4,580
Premier's Department	6,481	6,069	1,217	223	16	
Roads and Traffic Authority	142,812	105,694	121,779	837	1394	270,816
Royal Botanic Gardens and Domain Trust	250	250	174	1	1	
Rural Assistance Authority	111	111	432	1	14	4,941
Rural Fire Service (9)	28		1,776		4	5,851
State Electoral Office	3,719	3,085	1,567	4	4	31,332
State Emergency Service	1,251	274	243	4	4	4,578
Sustainable Energy Development Authority	1,928	913	31	21	1	2,318
The Legislature	1,430	784	924	7	13	44,380
Tourism NSW	7,590	1,699	5,204	7	6	33,322
Treasury	6,092	4,001	5,360	52	63	60,873
Waterways Authority	3,260	2,374	5,020	17	24	
Total	2,733,063	1,518,145	1,499,926	23,382	24,604	10,132,991

Notes:

Blanks either indicate zero or a nil return.

Value of contracts covers all contracts reported on in the 1996-97 survey.

Annual expenditure, contracts, and annual operating expenditure covers contracts or groups of contracts reported on in the 1996-97 survey which had a value of \$50,000 or more.

Budget sector agencies that did not participate in the survey were the Department of Gaming and Racing, Department of Land and Water Conservation and Police Integrity Commission.

1. The 1995-96 figures contain \$223 million on 2,181 contracts for residential care, child care and protection, community development, accommodation, and family and youth support services. Corresponding figures for 1996-97 were not reported.
2. The 1996-97 figures contain \$297 million on 10 contracts for medical services provided to public patients by third schedule hospitals. Corresponding figures for 1995-96 were not reported. Contracts with Visiting Medical Officers (VMOs) have been excluded in both years.
3. Details of the Department of Public Works and Services' contracting for services were not all available in time for inclusion in the 1995-96 report.
4. The 1995-96 figures contain \$23.0 million on 175 contracts for training programs. Corresponding figures for 1996-97 were not reported.
5. The 1995-96 figures contain \$42.5 million on 4,215 contracts for legal services. Corresponding figures for 1996-97 were not reported.
6. The 1996-97 figures contain \$3.0 million on 2,171 contracts for building and property maintenance and repairs and \$5.8 million on 1,045 contracts for appliance repairs. Corresponding figures for 1995-96 were not reported.
7. The 1995-96 figures contain \$148 million on 4,880 contracts for part-time teachers. In 1996-97 these contracts are included in annual operating expenditure for internal services.
8. The Office of Marine Administration was previously known as the Office of Marine Safety and Port Strategy. The change of name occurred in January 1997.
9. The Rural Fire Service was previously known as the Department of Bushfire Services. The change of name occurred in accordance with the Rural Fires Act of September 1997. The 1995-96 figures contain 3 contracts with expenditure of \$1.7 million for standby of pilots and aircraft. Corresponding figures for 1996-97 were not reported.

Table A.2 First-term contracts (1996-97) and new contracts (1997-98)

Agency	First-term contracts		First term contracts awarded in 1996-97		New contracts expected in 1997-98	
	Expenditure (\$'000)	Number	Expenditure (\$'000)	Number	Expenditure (\$'000)	Number
Ageing and Disability Department	1,918	11	96	2	112	5
Attorney-General's Department	921	8	407	5	150	1
Bicentennial Park Trust	10	1	10	1	4	1
Cabinet Office						
Casino Control Authority						
Centennial Park and Moore Park Trust	560	4	110	2	310	5
Coal Compensation Board	51	1				
Community Services Commission	28	1				
Department for Women						
Department of Aboriginal Affairs						
Department of Agriculture	1,042	28	171	2		
Department of Community Services	1,027	25			18,030	23
Department of Corrective Services	18,848	13			261	47
Department of Energy					91	4
Department of Fair Trading	1,392	23	231	1	100	5
Department of Health	85,697	652	22,593	30	1,908	19
Department of Industrial Relations						
Department of Juvenile Justice	1,398	21				
Department of Local Government						
Department of Mineral Resources	3,560	44	875	7	2,505	18

Department of Public Works and Services	4,365	86	478	8	1,141	16
Department of School Education	6,261	61	4,431	12	3,290	55
Department of Sport and Recreation	64	1			50	1
Department of Training and Education Co-ordination	714	2			65	1
Department of Transport						
Department of Urban Affairs and Planning	3,795	1				
Environment Protection Authority	244	7	106	2	21	3
Ethnic Affairs Commission						
Health Care Complaints Commission						
Home Care Service of NSW	2,400	70				
HomeFund Commissioner's Office						
Independent Commission Against Corruption	772	45	58	1		
Independent Pricing and Regulatory Tribunal					34	1
Judicial Commission of NSW						
Legal Aid Commission of NSW	233	1	233	1	40	1
Ministry for Police	636	9	552	8		
Ministry for the Arts	1,971	33	816	9	387	6
National Parks and Wildlife Service	852	30	56	1		
NSW Crime Commission						
NSW Fire Brigades	3,328	170	630	10	640	1
NSW Fisheries	283	2	215	1		

NSW Ombudsman						
NSW Police Service	885	10	24	1	851	7
NSW Registry of Births Deaths and Marriages	98	2			200	4
NSW Technical and Further Education Commission	9,359	57	4,693	32	1,373	19
Office of Marine Administration	65	1	65	1		
Office of the Board of Studies	539	5				
Office of the Director of Public Prosecutions	364	109			30	7
Parliamentary Counsel's Office						
Premier's Department	5,333	3	5,333	3		
Roads and Traffic Authority	55,967	348	7,194	88	5,539	32
Royal Botanic Gardens and Domain Trust						
Rural Assistance Authority						
Rural Fire Service						
State Electoral Office						
State Emergency Service						
Sustainable Energy Development Authority	913	21	688	2		
The Legislature	84	1				
Tourism NSW	262	4	140	3		
Treasury	2,450	23	778	10	1,799	6
Waterways Authority	565	14	49	4	458	5
Total	219,250	1,948	51,032	247	39,388	293

Table A.3 Detailed breakdown of services contracted

Service	Service sub-category	Expenditure (\$'000)	Contracts
administrative and corporate services	financial management and accounting	3,097	40
	human resource management	5,154	13
	library services	222	5
	payroll services	4,970	35
	records management	1,134	6
	secretarial and support services	16,121	266
	other administrative and corporate services	6,478	16
auditing		6,164	119
building and property services	air-conditioning	2,464	118
	cleaning	177,486	296
	electrical	408	25
	fire protection services	551	32
	fit-outs	634	55
	general repairs and maintenance	85,825	3796
	grounds and parks maintenance	30,128	3529
	lift maintenance	2,354	80
	plumbing	269	2
	security services	5,692	187
	structural	741	71
waste removal and disposal	3,899	75	
equipment maintenance	fixed plant and machinery	779	29
	fleet maintenance	605	1

	office equipment	510	77
	scientific services	188	11
	specialised instrumentation and equipment	12,592	386
	other equipment maintenance	14,233	2422
health and welfare		363,002	375
industrial waste removal		4,313	34
information technology and telecommunications	applications development and customisation	17,204	105
	facilities management	13,986	19
	maintenance and system support	28,754	296
	systems operation	103	2
	telecommunications	3,402	30
	other information technology and telecommunications	27,774	187
infrastructure maintenance		50,352	81
laundry and linen		24,225	293
legal services		13,442	792
management services	cash collection and security services	2,252	14
	fleet management	6,265	8
	general management	44,669	152
	property management	2,122	134
	technical and project management	18,492	105
marketing	advertising	5,812	56
	market research	376	5
	media monitoring	701	3
	promotional services	2,353	111
	publication, editing, layout and design	2,000	97

	other marketing	3,474	78
printing and distribution		20,472	808
technical services	architectural services	2,253	110
	economic analysis	90	2
	engineering services	10,215	203
	library services	402	2
	scientific services	3,508	285
	urban planning and design	8,515	145
	valuation services	418	49
	other technical services	1,901	47
training and development	production of teaching material	1,601	16
	program development	5,881	495
	teaching support	2,143	9
	training	11,827	1452
	other training and development	9,550	1409
transport	ferry services	308	5
	mail, courier and freight services	12,216	668
	road services	13,953	42
	other transport	391,143	2923
miscellaneous		3,974	43
Total		1,518,145	23,382