

Budget Controls – Labour Expense Cap

All general government agencies and selected public trading enterprises are required to manage their budget and forward estimates within a Labour Expense Cap. This Treasury Circular updates the previous Treasury Circular 12/14 *Budget Controls – Labour Expense Cap* by articulating the criteria under which the Labour Expense Cap can be adjusted.

Summary:

This Circular replaces and updates Treasury Circular 12/14, *Budget Controls – Labour Expense Cap*. It provides further details of the circumstances under which the Labour Expense Cap may be adjusted.

The Labour Expense Cap:

- places a ceiling on the total of employee related and contractor expenses (excluding consultants) that can be incurred in any year
- applies to the budget year and each forward estimate year
- applies to all general government agencies and selected public trading enterprises.

The Coordinating Minister of a cluster, supported by the Director-General of the principal department, is required to:

- ensure that the Labour Expense Cap for each agency within a cluster is managed within limits for that agency
- meet any additional expenditure needs in any agency by reprioritising the Labour Expense Cap between agencies in a cluster.

The primary means for adjusting the Labour Expense Cap is through the Budget process. The approval of the Treasurer must be sought for any proposed increase in Labour Expense Cap for the cluster in aggregate except in the circumstances outlined in this circular.

For general government agencies, the Labour Expense Cap is in addition to net cost of services controls outlined in Treasury Circular [NSWTC 12/08 *Budget Controls – Net Cost of Services*](#).

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For Secretary

Further Information: Your Agency's Treasury Analyst
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Budget Controls – Labour Expense Cap

1. Background

The introduction of the Labour Expense Cap supports tighter fiscal control necessary during a period of subdued revenue growth. This circular adds to the existing net cost of services control framework and is consistent with the Government's commitment to devolve financial management responsibilities for clusters to Coordinating Ministers and the Directors-General of principal departments.

This Circular is to be considered in conjunction with Treasury Circular 12/08 *Budget Controls – Net Cost of Services*.

2. Labour Expense Cap

All general government agencies (as shown in Budget Paper 3) must operate within an approved Labour Expense Cap. In addition, selected public trading enterprises must also operate within their approved Labour Expense Cap.

The Labour Expense Cap comprises total employee related expenses as well as expenditure on contractors (excluding consultants).

3. Setting Labour Expense Cap Limits in the Budget Process

The Labour Expense Cap was approved by Expenditure Review Committee of Cabinet and is a key additional budget control measure introduced in the 2012-13 Budget. The cap limits employee related and contractor expenses (excluding consultants) across general government sector agencies as well as selected public trading enterprises.

The Government has decided not to mandate the specific method for achieving employee savings. This provides Directors-General and agency CEOs the flexibility to develop and implement workforce strategies appropriate for the services being delivered. Strategies to meet the Labour Expense Cap include:

- improving efficiency of staffing arrangements to better manage overtime
- reviewing current contracting levels, needs and arrangements
- applying more rigorous job evaluation processes to ensure jobs are properly graded to curb 'grade creep'
- improving workforce management by reducing staffing through natural attrition and retirements
- improving the alignment of staff resourcing with work demands, which may include increasing temporary, part time and/or casual staff for peak workload periods.

As noted in the Budget announcements, teachers in schools, sworn police officers and nurses in hospitals will not be impacted by the Labour Expense Cap although ongoing efficiencies will continue to apply as normal in these areas.

4. Adjustments to the Labour Expense Cap

Adjustments to the Labour Expense Cap for the cluster in aggregate, and the individual agencies within the cluster, will normally only be considered annually as part of the Budget process.

Managing expenditure pressures within clusters

Clusters are expected to manage their employee related and contractor costs (excluding consultants) within the Labour Expense Cap established in the Budget process. Any additional expenditure needs and cost pressures should normally be managed through re-prioritisation within the cluster.

The principal department must write to Treasury to advise that the Coordinating Minister has exercised the discretion to reallocate the Labour Expense Cap between agencies in the cluster, providing details (including reasons) for the change, concurrently with the submission of monthly monitoring data.

Net Cost of Services

Treasury Circular NSWTC 12/08, *Budget Controls – Net Cost of Services*, requires clusters to strictly manage within a net cost of services control and approvals to exceed this control will be granted in exceptional circumstances only. Where such an approval is given, it will incorporate the necessary approved adjustment to the Labour Expense Cap.

Funding for Redundancy Payments

Treasury Circular NSWTC 12/01, *Funding for Redundancy Payments*, details arrangements to assist agencies meet the specific one-off costs associated with redundancies. The approval process under these arrangements will include approval to adjust the Labour Expense Cap to accommodate the payment of redundancies from the grants provided by the Crown.

Other adjustments to the Labour Expense Cap

The purpose of the Labour Expense Cap is to constrain growth in labour expenses without impacting efficient service delivery. In limited circumstances, an adjustment to the Labour Expense Cap may be necessary to support efficient service delivery, for example to manage the impact on labour-related expenses of volatility of third party revenue sources. In such circumstances, the Principal Department in the cluster should request approval for an adjustment from Treasury. In the case of third party revenue sources, it can generally be assumed that an adjustment will be approved provided if it does not increase Net Cost of Services and does not result in an ongoing underlying increase in labour-related expenses.

5. Carrying forward any unused Labour Expense Cap

In appropriate circumstances and subject to approval, any unspent Labour Expense Cap may be carried forward from the current financial year to a future financial year.

The criteria for carrying forward any unspent Labour Expense Cap is the same as outlined in Treasury Circular NSWTC 12/08, *Budget Controls – Net Cost of Services*.

6. Commonwealth National Agreements and National Partnerships

Where the extent of Commonwealth funding through National Agreements and National Partnerships is modified, Treasury will automatically adjust the Labour Expense Cap by an appropriate amount.

7. Further information

If you require further information or have any queries on this circular, please contact the Treasury analyst for your agency.