

01

RELEASE

September 2008



The Peoplebank Intermedium
FEDERAL ICT LABOUR HIRE INDEX

Introduction

Welcome to the first quarterly release of the Peoplebank Intermedium Federal ICT Labour Hire Index.

The Peoplebank Intermedium Index aims to track and predict movements in the Federal ICT labour hire market through a statistical indicator that reflects developments and trends in the Government ICT marketplace.

In addition, the Peoplebank Intermedium Index provides an overall indicator of Federal Government demand for ICT goods and services.

The Peoplebank Intermedium Index was developed by Intermedium, a specialised government ICT market research firm in partnership with Peoplebank, Australia's largest ICT recruitment company.

01 Key Numbers

The Peoplebank Intermedium Index of Federal ICT labour hire contracts stands at 1,744 having fallen 9% from May 2008.

The Index is derived by Intermedium from ICT labour hire contracts reported by Federal Government against a 2003/04 baseline.

The Index peaked at 2,056 in August 2007, the current total of 1,744 represents a fall of 16% over the period.

Despite a long term upward trend in new ICT Labour Hire contracts, the most recent data suggests that there has been a moderate correction in the market over the past quarter.

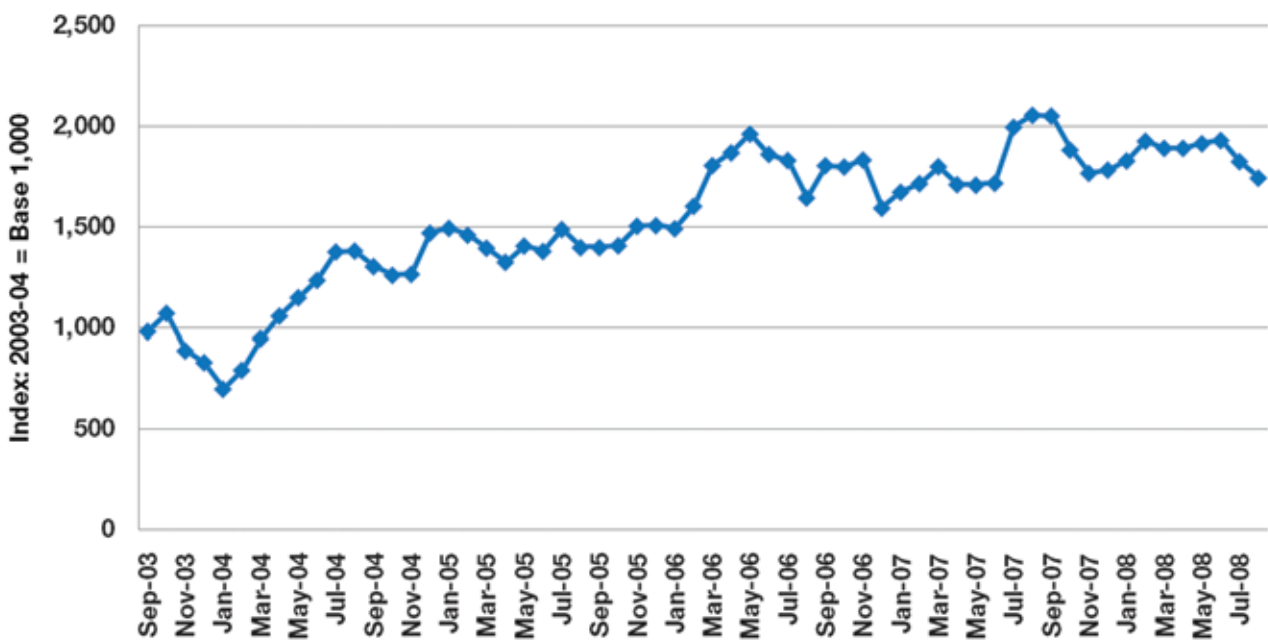
Since the peak, expenditure by the Federal Government on ICT labour hire has fallen by a comparative 80% to a low of just over \$8m for the month of June 2008 when compared with over \$40m spent in the same period for the previous year.

1,744
Base = 1,000

▼ **9%**
vs May 2008

▼ **16%**
vs Aug 2007

The Peoplebank Intermedium Index



02 Commentary

The Peoplebank Intermedium Index closely tracks the recent history of Government agency ICT demand and activity.

2003-04

2003-04 was a period of low demand for ICT contract labour in comparison to the previous five year period.

Following a strong increase in demand immediately preceding Y2K, there was a staggered drop off in demand for the subsequent two years driven largely by the dot com bust and the cessation/completion of Y2K related projects.

The Howard Government's investment in ICT and in particular new large-scale ICT projects was also limited during this period which led to an oversupply in some skill sets and a prolonged reduction in demand for general ICT skills.

2004

New initiatives across key agencies such as the ATO, Centrelink, Medicare and Customs reinvigorated the ICT market with sustained growth in demand for generalist skills such as Project Management and Business Analysis.

These projects, followed by others in Defence built momentum over the following two years, progressively consuming the oversupply of contractors in the Canberra market. Contractor rates began to increase steadily at around 12% per year.

2006

Responding to the Palmer Report, the Department of Immigration commenced its major Systems For People project by establishing a series of labour hire panels with an immediate requirement for a large number of highly skilled ICT contractors.

This demand, on top of strong demand coming from Centrelink's Refresh, the ATO Change program and a range of Defence and DEST projects, saw the first significant peak in demand, with the Index almost doubling from its 2003-04 base.

Contractor rates spiked with an average hourly rate increase of 20% adding significantly to the overall cost of ICT projects.

02 Commentary continued

2007

Demand for contractors was sustained and increased through 2007, additional demand emerged from the AFP and virtually all key agencies, with policies and programs being primed ahead of the Federal Election.

In addition, major vendors including IBM, Unisys and CSC were openly competing for contractor skills (note: this demand is not directly reflected in the Index), coupled with further demand from Immigration, which coincided in July with the annual renewal of longer term contracts by agencies.

As a consequence, the Index peaked in August-September 2007, at more than double the Index base of 1,000 just three years earlier.

The Federal Election 'cooled' the market, as agencies went into caretaker mode. In comparison to previous years, there was a stronger sense that change might occur, so a more conservative approach was adopted. As a result contract activity stalled, and the Index fell.

The change of Government meant some 'business as usual', but also an immediate 2% efficiency dividend. This affected the remaining 2007-08 agency budgets and overall commitment to ongoing ICT projects.

2008

Entering 2008, there has been an ongoing pause in contract activity, coinciding with completion or cessation of some significant programs such as the Human Services 'Smart Card' initiative and scaling back by agencies such as the AFP.

In April 2008, the Rudd Government announced a major review of the procurement, use and management of ICT in government, to be conducted by Sir Peter Gershon. Sir Peter is renowned for his focus on cutting inefficiency in the UK civil service through more centralised ICT procurement initiatives.

The May Budget saw few major new programs and the extension of the 2% efficiency dividend until the end of 2008-09. This together with a distinctly conservative response to the Gershon review, led to a marked reduction in spending on ICT contractors by agencies (down almost \$150m in 2007-08 compared with the previous year).

Contractor rates remained steady and in some agencies were reduced by up to 10% for the first time in three years.

02 Commentary continued

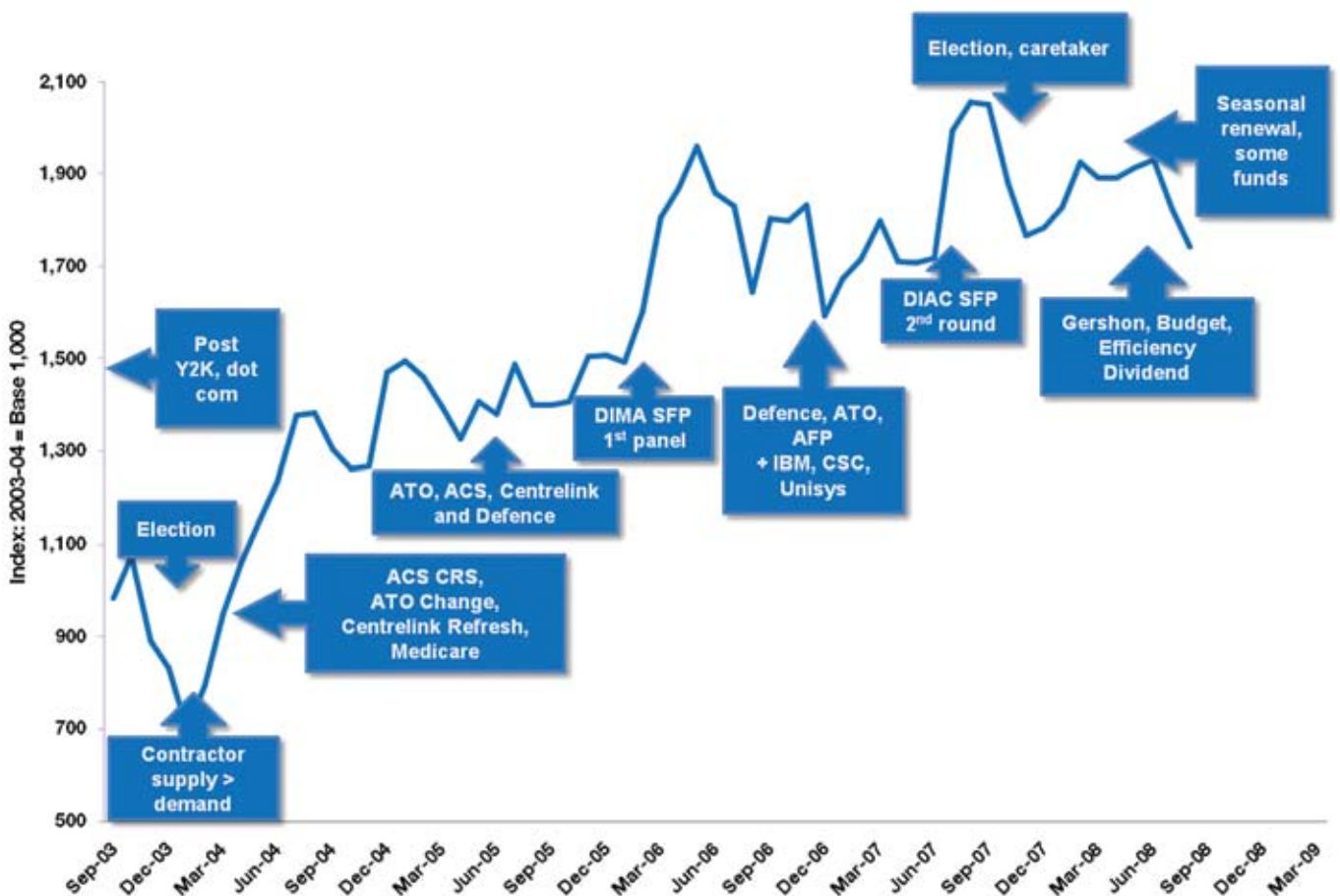
Contractor rates had increased by as much as 35% over the preceding two years for some skill sets in the ACT. This massive increase was driven by high demand for skilled ICT contractors combined with a skills shortage. In contrast, the overall volume of ICT labour hire contracts has been in strong decline over the past 12 months.

As a result, the Index is, in effect, being sustained by a combination of longer term contracts being offered and the residual inflated market rates.

Outlook

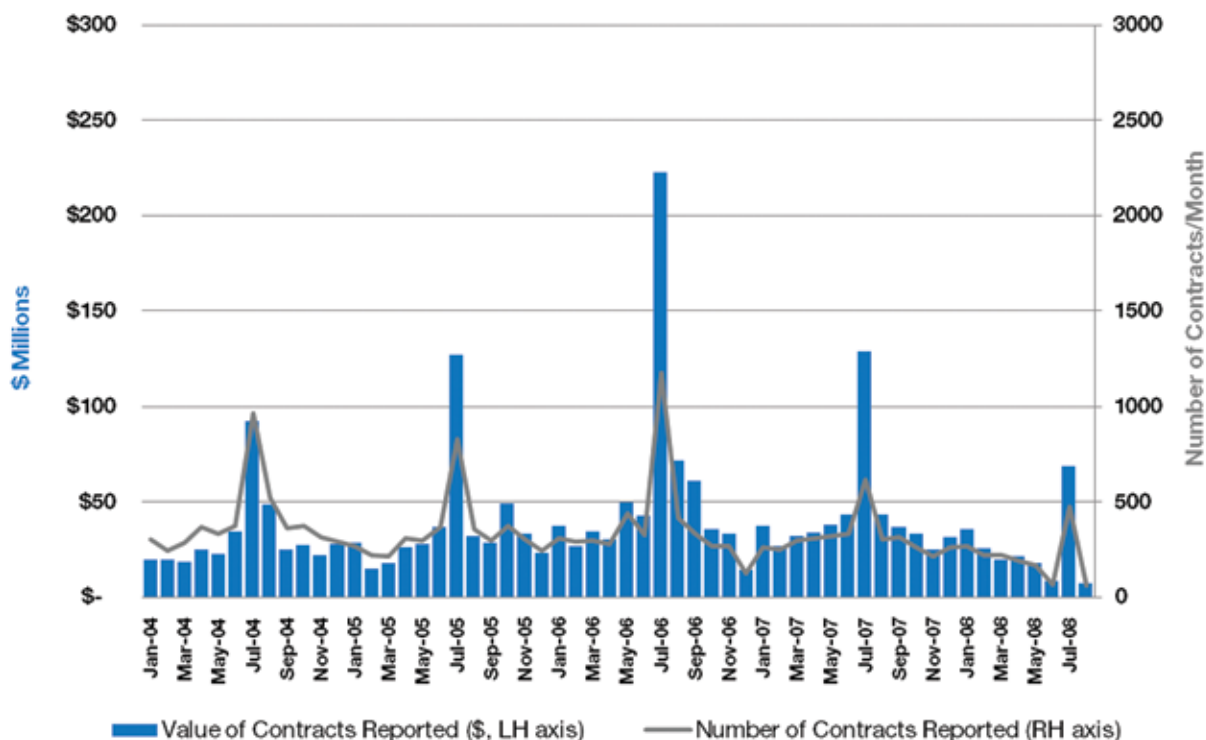
The immediate outlook is for a continued low level of demand to persist until early 2009. This will put short-term downward pressure on contractor rates, and means that many skills in demand may shift to other markets in Australia or overseas.

In early 2009, as the Rudd Government launches many of its election policy initiatives, demand can be expected to increase, perhaps rapidly, resulting in a shortage of key skills during the first half of 2009.



03 Volume and Value

Volume and Value of ICT Labour Hire Contracts



The most distinctive feature of labour hire volume and value is the significant peaks occurring each July. This occurs as agencies typically write contracts reflecting the annual budget cycles.

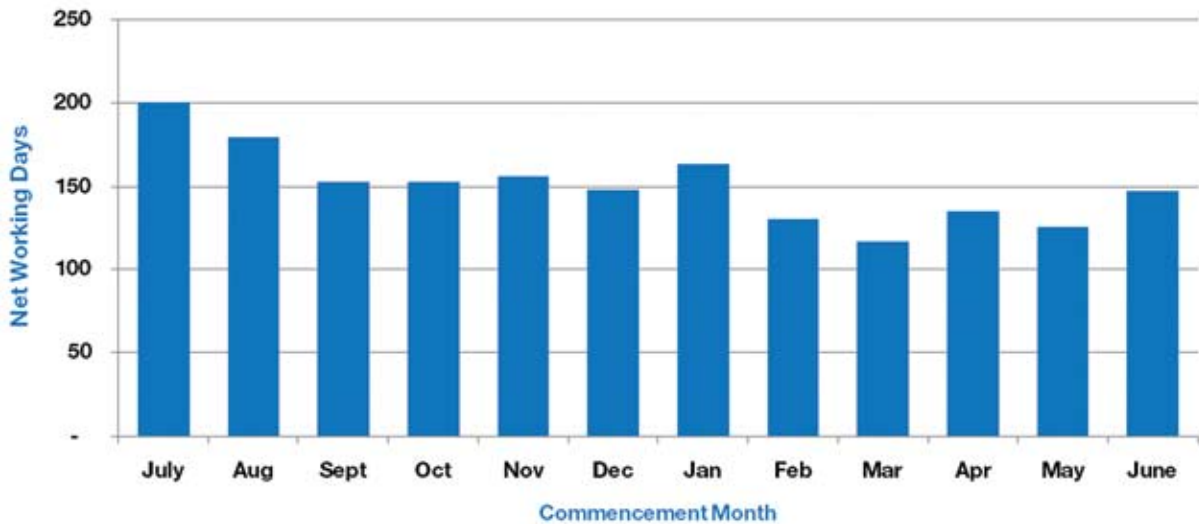
A majority of labour hire contracts expire on 30 June each year leading to a peak in reporting in the following July when Budget funds become available at the beginning of the financial year. Agencies may report contract extensions and contract renewals where a market test is required as a new contract.

In 2006-07, Government agencies recorded ICT contracts worth \$4bn, with labour hire contracts worth \$657m, or 16.5%, and almost one-third of these (by value) were transacted in July 2006.

In 2007-08, labour hire contracts are estimated at around \$500m, with over 25% of these occurring in July 2007.

04 Contract Duration

Average Contract Duration



Contract duration is typically driven by the prescribed 30 June contract end date, as such contract durations are at their peak in July, and diminish by approximately 25% for each quarterly period thereafter.

This is illustrated above in average contract duration which comprises a five year average of the contract duration for ICT contracts commenced in particular months.

Contracts are predominantly for periods of 3, 6, 9 or 12 months. The duration of the contract being offered is driven by specific project demand or more commonly by the financial year reporting cycle. Very few agencies report contracts that cover a period outside of the current financial year.

As a result contracts written in July typically are for 12 months and approximately 200 days. Contracts written in October are for 3 or 9 months to take the contract through to the half year or full year accordingly. January contracts are written for 6 months and contracts after this period are usually through to 30 June representing a diminishing overall contract value and duration.

The Index captures new contracts reported and does not specifically capture contract extensions. A 3 month contract written in March may be extended come 30 June, however this extension may not be reported.

05 About The Index

The data used in calculating the Index is derived from AusTender, which is part of the Federal Government tender and contracting information management system.

Federal Government agencies subject to the Financial Management and Accountability Act 1997 (known as the FMA Act) are required to record details of all contracts worth more than \$10,000 as part of the Department of Finance and Deregulation AusTender system.

Since 2004, Intermedium has been downloading AusTender contracts data, which it processes to produce a range of reports and market studies.

The data relating to ICT procurement is further classified by Intermedium into six broad categories and 48 sub-categories to reflect market segments.

Labour hire is a sub-category of IT services, a large volume of IT Services contracts are reported annually, by virtually all agencies. The large, consistent annual volume of contracts and their relative homogeneity allows for detailed statistical analysis.

The Index specifically measures the average cost of an average unit of labour hire providing an average unit of effort, derived by Intermedium from ICT labour hire contracts reported by Federal Government against a 2003/04 baseline.

06 About Intermedium

Intermedium is an independent advisory firm that helps companies sell their products and services to Federal and State governments. We undertake specialist research into the Federal and State government ICT markets, and publish a variety of analysis reports.

Based on our detailed knowledge of government information technology, we are able to provide a variety of consulting services such as tender preparation, contract/project support and ICT sales strategy and analysis.

To learn more contact Fleur Bayley on [02 9955 9896](tel:0299559896)

07 About Peoplebank

Peoplebank is Australia's largest ICT recruitment company and the largest supplier of ICT talent to the Federal Government.

Peoplebank finds you the best talent in the market place. We listen, understand and then deliver the right people to your business.

We have done this consistently for over 20 years with Australia's leading corporate, government and commercial organisations.

To learn more about Peoplebank call [1800 PEOPLE](tel:1800PEOPLE) or visit our website at www.peoplebank.com.au

08 Enquiries

Media Enquiries

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