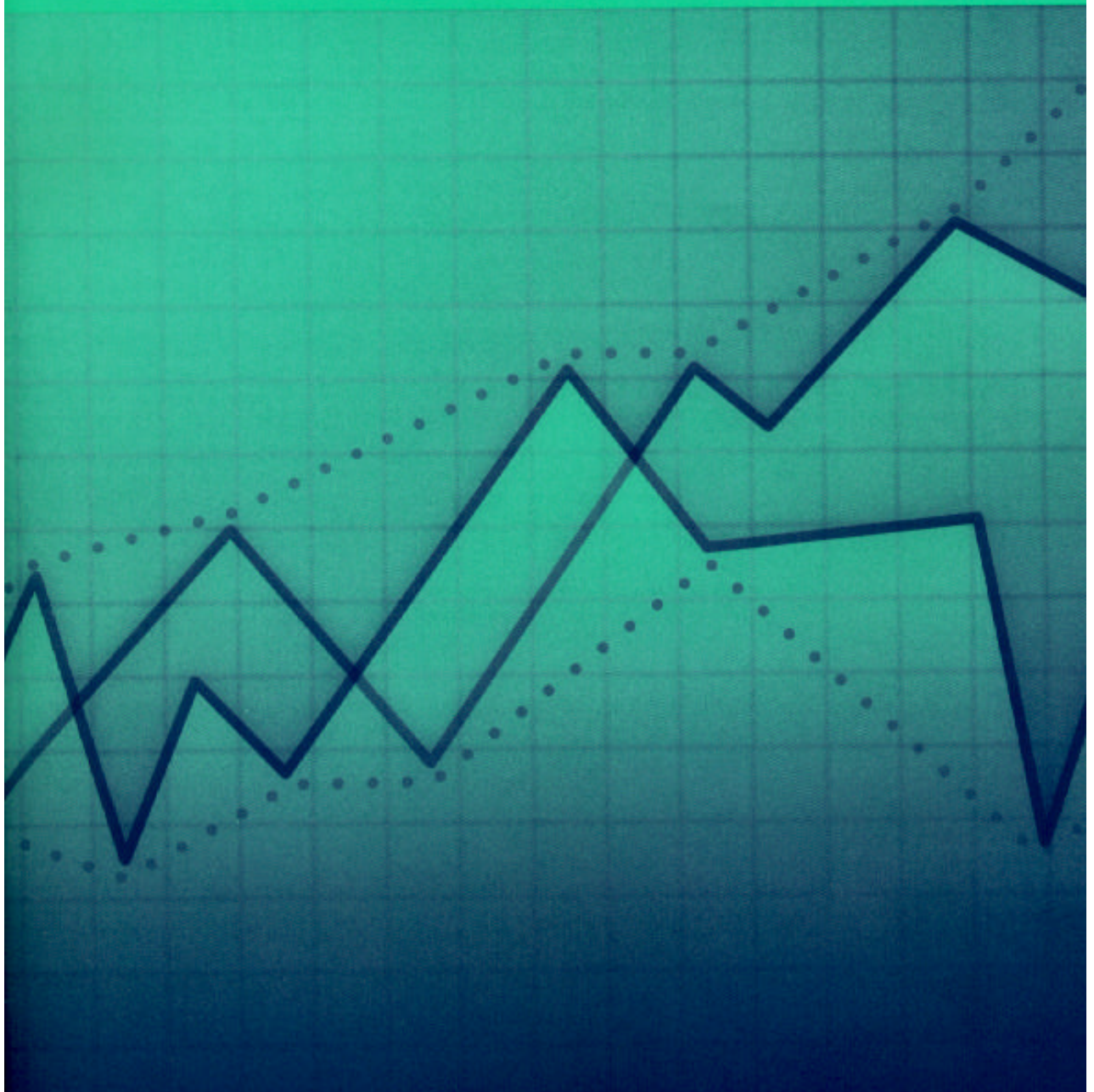


Financial Management Framework

The Financial Management Framework for the General Government Sector



PREFACE

This paper provides an overview of the Financial Management Framework for the General Government Sector.

The Framework is a consolidation of, and advancement on, recent financial management reforms. It is intended to facilitate further improvements in Government program and service delivery through two broad mechanisms.

Firstly, the Framework is intended to facilitate a more effective Budget process, by focussing on mechanisms which, within the context of the Government's fiscal strategy, will achieve more efficient and effective resource allocation and secure value for money in the provision of goods and services and in other Government activities.

Secondly, the Framework is intended to facilitate improvements in the management of the Government's asset and resource base, to ensure that the resources applied to program and service delivery are managed in a way which will maximise their delivery capacity.

The Framework will encompass a suite of interrelated policies and guidelines and agency toolkits. Each component of the Framework, however, will be capable of implementation in its own right. The intention is to roll out the components progressively over the next few years.

It is envisaged that the implementation process will involve extensive consultation with General Government agencies and, in some cases, pilot implementation programs. The emphasis will be on policies and tools which, whilst conceptually robust, result in practical improvements to the way in which the Government's program and service delivery is planned, funded, managed and assessed.

John Pierce
Secretary
NSW Treasury
December 2000

Treasury Ref: **TPP00-4**
ISBN: **0 7313 3095 1**

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This publication can be accessed from the Treasury's Office of Financial Management Internet site
[<http://www.treasury.nsw.gov.au/>]. For printed copies contact the Publications Officer on Tel: 9228 4426.

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EXECUTIVE SUMMARY

The Financial Management Framework is about improving the outcomes from Government program and service delivery in New South Wales.

The Framework applies to General Government agencies. It does not apply to agencies classified as being in the Corporation Sector or those covered by the Commercial Policy Framework.

Government program and service delivery is driven by community needs and expectations. The benefits to the community of this delivery should outweigh its cost to taxpayers.

Overall program and service funding and expenditure constraints are set by the State's fiscal strategy. The *mix* of programs and services provided is determined by a number of factors, including political processes, agency assessments of social needs and agency program and service delivery strategies.

Government program and service delivery should offer *value for money*. Government is accountable to taxpayers for achieving this goal.

Value for money requires that the limited resources available to Government be applied in such a way that community needs and expectations are satisfied to the greatest extent possible both now and in the future.

However, achieving value for money in Government program and service delivery is made challenging by many factors, including the complexities of the political process, the variability of, and difficulty in quantifying, social values, uncertainty about the most appropriate program and service delivery strategies, differences in knowledge and agendas amongst individual stakeholders and the absence of price signals to guide decisions on the provision and consumption of goods and services.

Given these challenges, improving value for money in Government program and service delivery requires the application of five principles:

- clarity of objectives;
- proper allocation of responsibility and accountability;
- appropriate, comprehensive incentive structures;
- performance management;
- integrity of information.

Since the early 1980s, a series of financial management reforms and value for money initiatives incorporating these principles have been developed in New South Wales. The Financial Management Framework is the mechanism for consolidating and advancing these reforms and initiatives.

The Framework will facilitate the development of a comprehensive, integrated suite of policies, guidelines and toolkits to foster value for money in Government program and service delivery through improvements to both resource allocation and resource management.

Development of individual components of the Framework will take place over the next few years, in collaboration with the other central agencies and with line agencies. A Financial Management Consultative Council will be established to aid consultation.

To support improvements in resource allocation, the initial focus in developing the Framework will be on efficiency and effectiveness assessment within a performance management context. This focus embraces *performance budgeting*, rather than output budgeting. Many questions exist about the validity of the latter, including the practicability of implementation.

To support improvements in resource management, the Framework will foster moves towards *best practice* resource management through provision of appropriate guidance to agencies. Some guidance will be provided by agencies other than Treasury.

The Framework will also support improvements in program and service delivery through the development of an incentive structure which encourages agencies to move to best practice resource management.

Additionally, development of the Framework will encompass a General Government Accountability Statement to clarify the roles, responsibilities and accountabilities of the key parties to Government program and service delivery. It will also encompass the current review and reform of New South Wales financial and annual reporting legislation.

Within Government, accountability reporting will be enhanced through development of the Service and Resource Allocation Agreements (SRAAs) for all Budget-dependent agencies.

External Government accountability reporting will be enhanced through improvements in efficiency, effectiveness and appropriateness information provided in the Budget Papers, in agency annual reports and in ad hoc agency performance reports.

The Framework will have benefits for all stakeholders, including the consumers of Government programs and services, taxpayers, Parliament, the Executive Government and General Government agencies.

The incremental approach to implementation will allow assessment of the costs and benefits of each component of the Framework. This will help ensure that overall benefits outweigh implementation costs.

Key components of the Framework for 2000-01 include:

- Budget Outcomes and Outputs – a Guide to Performance Management;
- a revised Service and Resource Allocation (SRAA) timetable and template for the 2001-02 Budget;
- Financial Analysis Guidelines.

Work will also continue on improving program and service costing principles and developing standards for agency costing systems.

THE FINANCIAL MANAGEMENT FRAMEWORK FOR THE GENERAL GOVERNMENT SECTOR

1. INTRODUCTION

The purpose of this paper is to provide an overview of the Financial Management Framework for the General Government Sector.

It will provide readers with an understanding of:

- the purpose of the Framework;
- the nature of the Framework;
- the components of the Framework.

The overall purpose of the Framework is to improve the outcomes from Government program and service delivery in New South Wales.

It will do this by encouraging a further shift in focus *from* the funding provided to General Government agencies *to*:

- the activities of agencies, and the impact these have on the community;
- the way agencies manage program and service delivery.

Under the Framework, a suite of policies, guidelines and toolkits will be developed to:

- improve the information available on agency activities and their impact on the community, allowing more informed decision making;
- guide the way agencies manage the resources at their disposal, thereby helping to secure improvements in resource management.

The Framework is an articulation of the way in which existing financial management reforms will be consolidated and advanced to move New South Wales towards best practice program and service delivery.

It relates to General Government agencies because their activities are central to Government program and service delivery.

The paper begins by discussing the nature of Government program and service delivery and the key criteria which delivery should satisfy.

The paper then examines briefly the key financial and management reforms which have already been introduced to improve General Government performance.

Finally, the paper describes how the Framework will be developed and provides a brief description of the implementation plan for the first year (2000-01).

The Financial Management Framework is about improving the outcomes from Government program and service delivery in New South Wales.

2. THE GENERAL GOVERNMENT SECTOR

Government agencies vary in the nature of their operations and the source of their funding.

By definition, General Government agencies are those agencies primarily funded from State taxes or Commonwealth taxes passed onto the State.

Many General Government agencies are funded from Parliamentary appropriations and are Budget-dependent.

The funding provided is used to deliver programs and services of a public policy nature at either no cost to users or at subsidised rates.

Other General Government agencies are self-funded from regulatory fees and are non Budget-dependent.

General Government agencies are by definition distinct from Government commercial enterprises in the Corporation Sector.¹

These enterprises are commercial in focus and operation. They provide goods and services and are funded by user charges.

In New South Wales, the operation of commercial agencies is governed by the Government's Commercial Policy Framework.²

Some Government goods and services of a public policy nature, such as reduced-price travel, electricity and water for selected members of the community, are delivered through commercial agencies.

Under the Commercial Policy Framework, public policy goods and service delivery through commercial agencies is subject to the Government's Social Program Policy.

This provides for transparent identification and funding of these goods and services through the State Budget as community service obligations.

The Financial Management Framework applies to General Government agencies.

The Framework does not apply to agencies classified as commercial or covered by the Commercial Policy Framework.

¹ However, the distinction between General Government agencies and commercial agencies is somewhat arbitrary. In practice, some General Government agencies are commercial or semi-commercial in focus. Where these agencies are covered by the Commercial Policy Framework (for example, the Department of Public Works and Services) the General Government Framework will **not** apply.

² See Appendix B for examples of Commercial Policy Framework documents.

3. GOVERNMENT PROGRAM AND SERVICE DELIVERY

Government program and service delivery is driven by community needs and expectations. The benefits to the community of this delivery should outweigh its cost to taxpayers.

Many goods and services are provided directly to the community. They include:

- services such as health, education, law and order, including associated facilities such as hospitals, schools and court buildings;
- infrastructure such as roads and parks;
- advisory and facilitation services to individuals and organisations, for example, to facilitate community action or support economic growth and industry development.

Government also undertakes regulatory activities to govern the behaviour of individuals and organisations.

Other Government activities, such as policy development and administrative services, support the operations of various arms of Government.

For Budget-dependent agencies, the total *quantum* of programs and services provided is determined by the State's fiscal strategy, which sets overall funding and expenditure constraints.

The *mix* of programs and services provided is a function of the complex interplay between:

- the Executive Government's social policy priorities, determined partly by the political process;
- agency assessment of community needs and expectations;
- agency development of program and service delivery strategies.

Because of the knowledge and experience gained from their daily operations, agencies are instrumental in informing the Executive Government's assessment of the nature and extent of community needs and the most appropriate program and service delivery strategies to address those needs.

The State Budget sets out the funding allocated to individual agencies within the framework of the State's fiscal strategy for program and service delivery and agencies' proposed levels of expenditure. Allocation decisions are made by the Budget Committee on behalf of the Executive Government.

Once the Budget is approved by Parliament, agencies use the funding provided through the Budget for that delivery.

Agencies may either undertake delivery themselves or contract it to commercial agencies or to non-Government organisations.

Government program and service delivery is driven by community needs and expectations. Benefits to the community should outweigh the cost of delivery to taxpayers.

The State's fiscal strategy sets overall program and service funding and expenditure constraints.

The *mix* of programs and services provided is determined by:

- **political processes;**
- **agency assessments of social needs;**
- **agency program and service delivery strategies.**

4. CRITERIA FOR GOVERNMENT PROGRAM AND SERVICE DELIVERY

Government program and service delivery involves two interrelated processes:

- **resource allocation** (the process whereby the mix of programs and services is determined and funding allocated through the Budget);
- **resource management** (the process of translating funding into the resources required for program and service delivery and building delivery capacity).

A key issue in **resource allocation** is obtaining the *best* mix of programs and services within the funding and expenditure constraints set by the State's fiscal strategy.

A key issue in **resource management** is selecting and managing the mix of labour, capital assets and other resources available in such a way that they deliver the greatest quantity and quality of programs and services possible.

Additionally, the delivery capacity of resources over time should be maximised, through, for example, staff training and asset maintenance.

This applies whether resource management is undertaken by Government agencies or by other providers.

The concept of best mix and good management embraces three related elements: **efficiency, effectiveness and appropriateness.**

Efficiency³ is a measure of the relationship between program and service effort produced and resources used.

Effectiveness is a measure of the relationship between programs and services provided and the impact on the issues and needs originally identified.

Appropriateness embodies the additional concepts of:

- Government's proper role and responsibility;
- responsiveness – matching services to community needs as they occur;
- equity – giving individual members of the community the most equitable access to the services they need.

Efficiency, effectiveness and appropriateness together add up to the concept of "**value for money**".

Obtaining value for money is important because Government funds are limited.

Taxpayers (including regulatory fee payers) are the ultimate funders of Government programs and services. The Government is accountable to taxpayers for achieving value for money.

Government program and service delivery should offer *value for money*.

Value for money requires that the limited resources available to Government be applied in such a way that community needs and expectations are satisfied to the greatest extent possible both now and in the future.

Government is accountable to taxpayers for achieving value for

³ Technically, this is *productive* efficiency. *Allocative* efficiency is a measure of the relationship between social

welfare consumption benefits and the mix of programs and services delivered.

5. CHALLENGES OF ACHIEVING VALUE FOR MONEY IN PROGRAM AND SERVICE DELIVERY

Government program and service delivery is characterised by a number of factors which present challenges to achieving value for money.

Decisions on program and service mix are both complex and dispersed, involving compromises amongst stakeholders and a delicate balancing of social values which are likely to be as varied as they are incalculable.

Tension may exist between short term imperatives and the design of long term program and service delivery strategies.

Over time this tension can result in program or service delivery “gaps”. Such gaps may also be caused by other factors, such as demographic or technological changes or shifts in community expectations.

Many community needs are complex and hence not amenable to simple solutions. Moreover, for many areas of community need, considerable uncertainty exists about the most appropriate response.

Agencies are particularly well positioned to advise the Executive Government on appropriate program and service delivery strategies for their areas of operation. However, they are less able to provide advice on the most appropriate balance between different areas of operation.

Price signals to consumers of Government goods and services are often imperfect or absent. Without accurate price signals, the community does not ration its *demand* for goods and services. Instead Government must ration the *supply*.

Government is effectively a monopoly provider of many goods and services.

Unless competition has been introduced into the delivery process, for example, by the involvement of non-Government providers on a competitive basis such as with private sector participation in infrastructure provision, Government goods and service delivery is not subject to efficiency pressures from competing providers.

Equally, where Government is the sole provider the community cannot express any dissatisfaction with goods and services provided in terms of quantity, quality or effectiveness by transferring to alternative providers.⁴

Achieving value for money in Government program and service delivery is made challenging by the:

- **complexities of the political process;**
- **variability of, and difficulty in quantifying, social values;**
- **tension between short term imperatives and the design of long term program and service delivery strategies;**
- **uncertainty about the most appropriate delivery strategies;**
- **unequal information amongst stakeholders about community needs and program and service possibilities;**
- **different incentives for different stakeholders;**
- **absence of price signals to guide decisions on goods and service provision and consumption;**
- **absence of competition in goods and service provision.**

⁴ Even where there are alternative providers, as in the case of education and health, the prices charged may preclude access for many members of the community.

6. PRINCIPLES OF IMPROVING VALUE FOR MONEY

Improving Government program and service delivery necessitates addressing the challenges associated with achieving value for money.

The following principles are central to this process:

- **Clarity of objectives**

Clear statements of program and service delivery objectives assist in focussing debate on the desirability of the objectives and their relative priority.

A common understanding of objectives within Government contributes to successful agency design of program and service delivery strategy.

- **Proper allocation of responsibility and accountability**

The responsibility for program and service delivery should be allocated to those parties within Government best placed to design and deliver programs and services efficiently and effectively.

Such allocation is contingent upon clarification of, and agreement on, the roles and responsibilities of parties to program and service delivery. Allocation should be balanced by clear accountability structures.

- **Appropriate, comprehensive incentive structures**

Well-designed incentive structures are required to align the actions of all parties contributing to program and service delivery with the pursuit of value for money.

The design of incentive structures should minimise perverse incentives as well as offer positive incentives.

- **Performance management**

Regular, rigorous review and evaluation of program and service delivery are required to assess whether value for money is being achieved.

This is particularly so given the uncertainty about appropriate responses and the absence of price signals and competition.

Program and service delivery strategies which are inefficient, ineffective or inappropriate should be redesigned or jettisoned.

- **Integrity of information**

Comprehensive, meaningful and accurate information about the efficiency, effectiveness and appropriateness of program and service delivery underpins accountability and performance management and is critical to ensuring transparency.

Improving value for money in Government program and service delivery is based on the application of five principles:

- **clarity of objectives;**
- **proper allocation of responsibility and accountability;**
- **appropriate, comprehensive incentive structures;**
- **performance management;**
- **integrity of information.**

7. THE NEW SOUTH WALES FINANCIAL MANAGEMENT REFORM PROGRAM

Since the early 1980s a number of financial management reforms have been introduced in New South Wales consistent with the principles underlying value for money.

Major reforms have been made to the Budget process and agency financial reporting, including the introduction of:

- global budgeting (*proper allocation of responsibility and accountability and incentive structures*);
- program budgeting information (*clarity of objectives and integrity of information*);
- accrual accounting budgeting and reporting (*integrity of information*);
- consolidated financial statements, providing comprehensive data on State finances (*integrity of information*);
- the *General Government Debt Elimination Act 1995* (*clarity of objectives*).

To enhance *performance management*, Treasury has been trialing one-to-one agreements with agencies since 1995-96.

Now termed Service and Resource Allocation Agreements (SRAAs), these provide a vehicle for agencies to describe the way in which the funding allocated to them is to be used, accompanied by efficiency and effectiveness data.

In 2000-01, SRAAs are being negotiated with eleven agencies.

Further reforms have been developed under the aegis of the Council on the Cost and Quality of Government (COCQG) by the Review and Reform Division of the Premier's Department.

These reforms include the introduction of Service Effort and Accomplishments (SEAs) reports and Budget program reviews (*performance management and integrity of information*).

The Review and Reform Division has also developed two initiatives aimed at improving value for money:

- Service Competition Policy;
- the Corporate Services Reform Project.⁵

Additionally, in recent years, many individual agencies have improved their strategic planning and performance monitoring processes.

The Financial Management Framework is a consolidation of, and advancement upon, these reforms. It will provide a comprehensive value for money framework.

Since the early 1980s, a series of financial management reforms and value for money initiatives have been developed in New South Wales.

The Financial Management Framework consolidates and advances these reforms and initiatives.

⁵ See Appendix B.

8. OVERVIEW OF THE FINANCIAL MANAGEMENT FRAMEWORK

The aim of the Financial Management Framework is to support improvements in the outcomes from Government program and service delivery through the pursuit of value for money.

The Framework is based upon the five principles underlying the pursuit of value for money.

The Framework operates within the context of the State's fiscal strategy.

The Framework will facilitate the development of a comprehensive, integrated suite of policies, guidelines and toolkits to improve the two elements of Government program and service delivery, namely:

- resource allocation;
- resource management.

The focus of the Framework is on encouraging and supporting practical improvements in resource allocation and management.

The development of individual policies, guidelines and toolkits will be supported by Treasury research and information papers where appropriate.

It is envisaged that this development will take place over the next few years, in collaboration with the other central agencies and with line agencies.

This development will involve extensive consultation on policy issues and pilot testing of individual guideline and toolkit components.

To assist consultation, a Financial Management Consultative Council will be established, chaired by the Secretary of Treasury.

Members will comprise senior representatives from The Cabinet Office, the Premier's Department and a cross-section of line agencies.

The Council will operate as a sounding board for further development of the Framework, to ensure that individual components have a practical application for line agencies.

Figure 1 provides a diagrammatic representation of key facets of the Framework.

The Financial Management Framework will facilitate the development of a comprehensive, integrated suite of policies, guidelines and toolkits to foster value for money in Government service delivery.

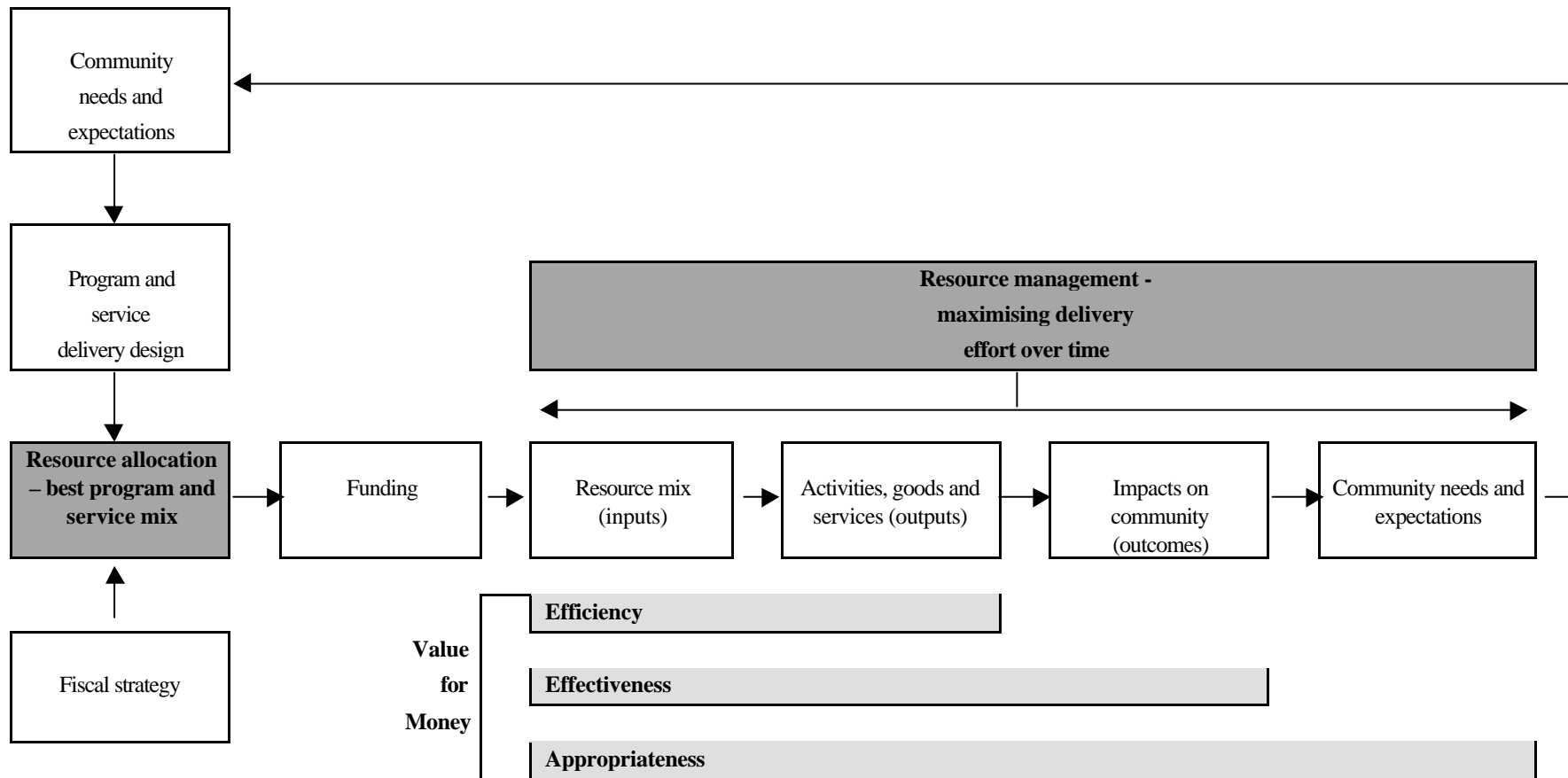
The Framework is based on the five principles underlying the pursuit of value for money.

It is directed at improving both resource allocation and resource management.

Development of individual components of the Framework will take place over the next few years, in collaboration with the other central agencies and line agencies.

A Financial Management Consultative Council will be established to aid consultation.

FIGURE 1: KEY FACETS OF THE FINANCIAL MANAGEMENT FRAMEWORK



9. IMPROVING RESOURCE ALLOCATION

To achieve value for money in program and service delivery, the limited resources available to Government should be allocated in a way which seeks to maximise program and service effort and the satisfaction of community needs and expectations both now and in the future.

To make sensible resource allocation decisions, Government requires the most comprehensive, accurate information possible on:

- the nature and extent of different community needs;
- alternative program and service delivery options to address these needs and their cost; and
- the likely impact of planned program and service delivery on identified needs.

Program and service delivery should be monitored regularly to ensure that delivery is efficient and addressing targeted needs.

More strategically, targeted needs themselves should be reviewed regularly for continued relevance to the community.

However, examination of community needs and social priority setting involves consideration of complex socio-political issues and processes.

Accordingly, the initial emphasis in developing the Framework will be on facilitating better information for efficiency and effectiveness assessment within a performance management context.

To this end, guidance will be provided to agencies on performance management, including:

- identification and quantification of agency activities and of goods and services produced and delivered (collectively referred to as outputs);
- activity and service (output) costing principles;
- standards for agency costing and management information systems;
- measurement of the impacts of program and service delivery on the community (referred to as outcomes).

Guidance will also be provided to agencies on the application of efficiency assessment techniques, where appropriate, such as:

- benchmarking, as advocated under the Service Competition Guidelines;
- Data Envelopment Analysis (DEA).⁶

Ultimately consideration will be required of the central issue of resource allocation, namely seeking to obtain the best mix of program and services within resource constraints.

Approaches to consideration of this issue will be developed in conjunction with The Cabinet Office, the Premier's Department and line agencies.

Possible approaches could include research into community needs assessment and prioritisation and into the role of Government in maximising social welfare.

To support improvements in resource allocation, the initial focus in the developing the Framework will be on efficiency and effectiveness assessment within a performance management context.

⁶ See Appendix B.

10. RESOURCE ALLOCATION - IS OUTPUT BUDGETING THE ANSWER ?

Many overseas and other Australian jurisdictions have moved, or are moving to, some form of output budgeting.

Output budgeting involves the Executive Government explicitly “purchasing” outputs from program and service delivery agencies (the “providers”) in order to achieve desired Government outcomes.

An agency’s performance is assessed by its success in delivering the quantity and quality of outputs specified.

However, many questions remain about this approach, including the practicability of implementation.

Under output budgeting, the Executive Government needs to be able to specify the outputs it requires.

This obliges the Executive Government to overcome its relative lack of knowledge about program and service delivery options.

Output budgeting can also involve the Executive Government in the detail of program and service delivery design and result in the centralisation of this process.

This contravenes the value for money principle of proper allocation of responsibility and accountability.

Additionally, output budgeting tends to focus the attention of both the Executive Government and agencies on outputs, to the possible detriment of outcomes.

This can undermine progress towards determining the best mix of program and services available within resource constraints.

A watching brief will be maintained over other jurisdictions’ implementation of, and experience with, output budgeting to assess the lessons available to New South Wales.

However, for the foreseeable future, the focus in developing the Framework will be on performance budgeting.

With performance budgeting, the Executive Government funds (or “purchases”) an agency’s program and service delivery plan (a set of program and service delivery strategies) which the agency has developed in order to achieve desired Government outcomes.

Under this approach, the Executive Government specifies only high level outcomes, with program and service delivery design and implementation devolved to agencies.

Each agency is then responsible to the Executive Government for the efficient implementation of the agreed program and service delivery plan and for the plan’s effectiveness, as measured by progress made towards achieving desired outcomes. The agency’s performance is assessed by its success in delivering its plan efficiently and effectively.

The focus in developing the Framework will be on *performance budgeting*, rather than output budgeting.

11. IMPROVING RESOURCE MANAGEMENT

Within Government, resource management is delegated to individual agencies.

Facilitating better information for the assessment of program and service efficiency and effectiveness to improve resource allocation will also benefit agency resource management.

In addition, the Framework will support improvements in resource management through:

- providing information and guidance to agencies on **best practice management** as appropriate;
- evolving an **incentive structure** which encourages best practice management.

Best practice management revolves around maximising an agency's program and service delivery capacity over time.

This requires agencies to anticipate and plan for future program and service demands and develop agency relevance and viability in the face of changing circumstances.

This in turn requires agencies to focus on:

- financial management;
- physical asset management, including asset maintenance;
- human resource management; and
- strategic planning and positioning, including environmental scanning and risk management.

Since agencies are instrumental in informing the Executive Government's program and service delivery priorities and strategies, improvements in agencies' strategic planning capabilities will also improve resource allocation decisions.

Specific guidance will be provided to agencies on aspects of **financial management** including:

- accounting policies;
- Treasury management (which could include tax matters and private financing);
- working capital management;
- financial monitoring;
- financial performance analysis.

Where necessary, guidance will also be provided to agencies on aspects of **asset management, human resource management** and **strategic planning**.

Guidance on many aspects of resource management has already been provided, both by Treasury and by agencies.

Examples include: ⁷

- the Treasury toolkit on **risk management**;
- Service Competition Policy;
- the Corporate Services Reform Project;
- Total Asset Management (TAM).

Further guidance will continue to be provided by other agencies in addition to Treasury.

The Framework will foster moves to best practice resource management through provision of appropriate guidance to agencies.

Some of this guidance will be provided by agencies other than Treasury.

⁷ See Appendix B.

12. INCENTIVE STRUCTURES

Progress towards best practice resource management will be more easily achieved if agencies are subject to an incentive structure which actively encourages and supports 'good' management.

Incentive initiatives which will be canvassed include:⁸

- **Cost transparency mechanisms**

Agencies should be exposed to the full cost of *all* resources used, so that their choice of resource mix is based on accurate information.

One possible option is the introduction of a capital charge, to indicate the full cost of capital asset acquisition.

- **Review of agency funding arrangements**

Consideration will be given to rationalising the application of recurrent and capital funding.

The current provision of separate capital funding for asset replacement as well as increases in the Government's asset base can result in asset maintenance being accorded a low priority.⁹ It also undermines the move to accrual accounting and budgeting.¹⁰

Consideration will also be given to increasing funding flexibility to facilitate agencies' resource management, subject to appropriate financial disciplines.

⁸ The list given here is not intended to be exhaustive.

⁹ This issue is distinct from that of recurrent funding being provided to cover asset maintenance costs as determined by an agreed Asset Maintenance Plan.

¹⁰ Whether any changes to the application of separate capital funding will result in a move to full accrual funding will need to be determined.

Possible options include arrangements such as "borrowing" from Consolidated Fund, as with SEDA's Energy Smart Buildings program, and providing agencies with greater certainty of forward funding to facilitate strategic capital planning.

The Executive Government has also released a Green Paper signalling its intention to invite innovation in the private financing of infrastructure provision.¹¹

- **Inter-agency co-operation**

Further consideration will be given to mechanisms required to facilitate **whole-of-Government service delivery initiatives**, that is, inter-agency co-operation and collaboration to improve program and service delivery.

- **Efficiency incentives**

Agencies cannot be expected to pursue initiatives aimed at improving efficiency unless they benefit from the results.

Consideration will be given to means of allowing agencies to "share" in the rewards of good management, in addition to current practices such as agencies keeping an agreed percentage of proceeds from surplus asset sales.

Similarly, further consideration will be given to imposing sanctions on agencies for poor management.

The Framework will support improvements in program and service delivery by evolving an incentive structure which encourages agencies to move to best practice resource management.

¹¹ See Appendix B.

13. OTHER COMPONENTS OF THE FRAMEWORK

In addition to policies, guidelines and toolkits to foster improvements in resource allocation and resource management, two further components of the Framework are planned.

These are:

- an accountability statement for the General Government sector;
- the review and reform of New South Wales financial and annual reporting legislation.

General Government Accountability Statement

As the Framework is developed, a review and restatement of General Government accountability will be required to clarify the respective roles, responsibilities and accountabilities of the following to stakeholders and to one another:

- the Executive Government generally;
- the Budget Committee as a Committee of Cabinet;
- General Government agencies;
- the central agencies.

The statement will explicitly address the roles, responsibilities and accountabilities of General Government agencies participating in whole-of-Government initiatives.

This statement will help place the Framework in a wider Government organisational and accountability context.

Review and Reform of New South Wales Financial and Annual Reporting Legislation

The New South Wales financial and annual reporting legislation is under review, with the

aim of bringing it into line with modern financial management, accountability, public finance, financial reporting and auditing standards.¹²

The reform of the legislation will provide legislative underpinning for Framework components.

The Framework will encompass:

- **a General Government Accountability Statement to clarify the roles, responsibilities and accountabilities of key parties to Government program and service delivery;**
- **the review and reform of New South Wales financial and annual reporting legislation.**

¹² See Appendix B.

14. ACCOUNTABILITY REPORTING

For **resource allocation**, accountability reporting should embrace:

- reporting on the targets set for value for money components (efficiency, effectiveness and appropriateness);
- reporting on the degree of value for money actually achieved.

Reporting streams are required both within and external to Government.

For **resource management**, the primary stream of accountability reporting is within Government since the focus of external reporting is on results of Government action, not the means by which those results are achieved.

Within Government, the major reports will be against the Service and Resource Allocation Agreements (SRAAs) which are currently being trialed.

SRAAs are being developed as performance budgeting tools. Their focus is the value for money performance of agencies given the funding provided to them.

Under the Framework, SRAAs will be developed further and progressively applied to all Budget-dependent General Government agencies.

Special consideration will be given to the level of internal Government reporting required for non Budget-dependent General Government agencies, particularly on aspects of resource management.

The major **external reports** are the Budget Papers and agencies' annual reports.

Improvements in output and outcome definitions will permit more precise information in the Budget Papers on:

- outputs and outcomes to which Budget funding is to be applied by agencies (for the Budget year); and
- outputs and outcomes achieved in previous years.

Agencies may choose to report on their outputs and outcomes and on some aspects of resource management, such as operational or organisational strategies, in their annual reports.

Budget and statutory reporting can be supplemented by special purpose reports such as the SEAs reports and comparative reports for key General Government agencies.

Accountability reporting will be primarily through the following:

Within Government

- **Service and Resource Allocation Agreements (SRAAs).**

External reporting

- **the Budget Papers;**
- **agency annual reports;**
- **ad hoc performance reports.**

15. THE FRAMEWORK - SYNTHESIS

Figure 2 provides a listing of all components of the Framework as currently envisaged.

The figure indicates for each component its key contribution to achieving value for money.

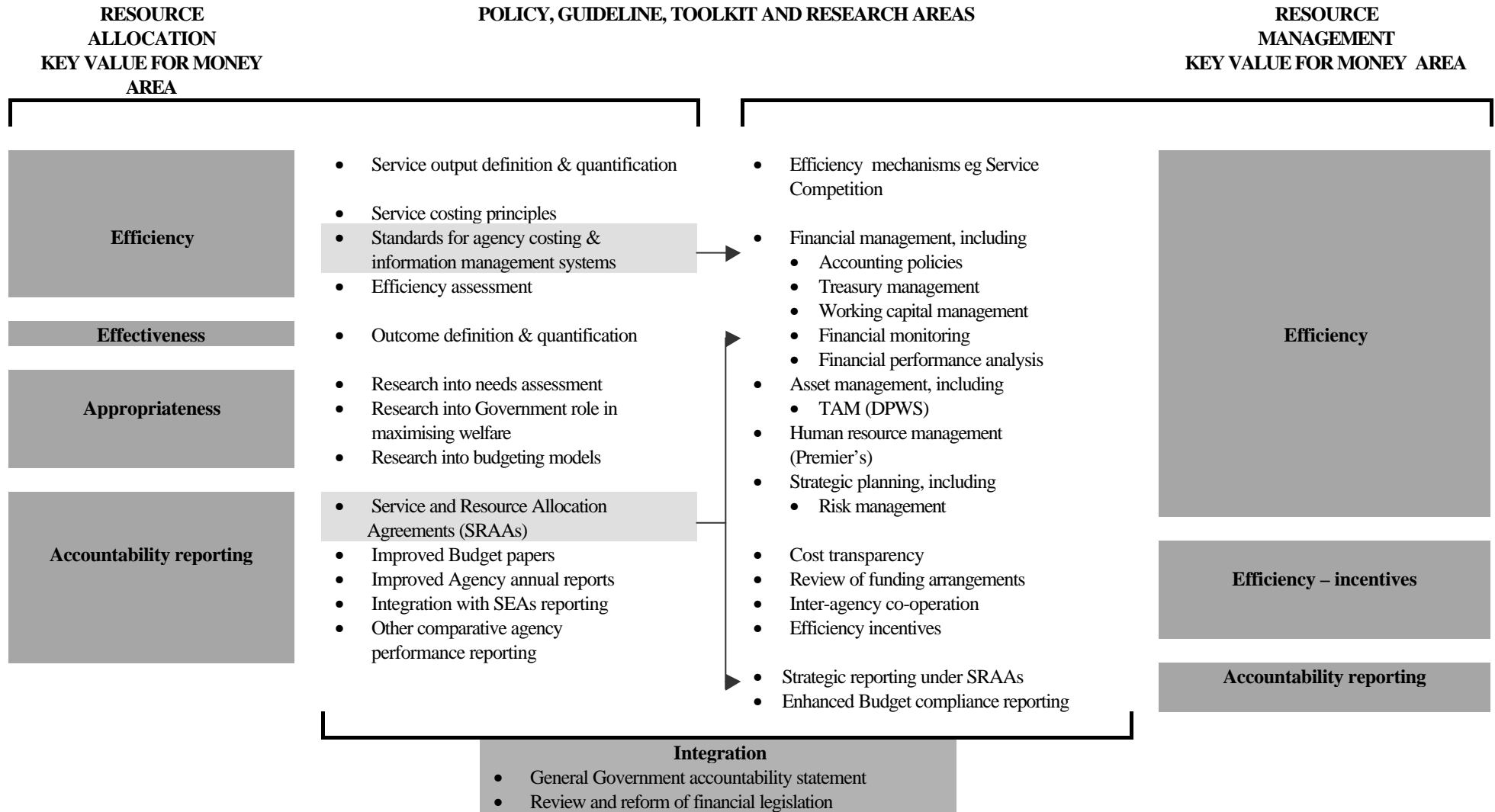
Two components, namely:

- standards for agency costing and management information systems;
- Service and Resource Allocation Agreements (SRAAs)

relate to more than one aspect of the Framework.

Consultation with agencies will determine the level of guidance required on each component.

FIGURE 2: COMPONENTS OF THE FINANCIAL MANAGEMENT FRAMEWORK



16. ADVANTAGES OF THE FRAMEWORK VERSUS COSTS

Advantages of the Framework for key stakeholders are:

For consumers of programs and services

- Improvements in program and service delivery.
- Improvements in program and service responsiveness to community needs.

For taxpayers

- Better value for money in program and service provision.
- Improvements in accountability for taxpayers' funds spent.

For Parliament

- Improvements in Government accountability.
- Increased clarity and transparency of Budget expositions.

For Executive Government (including Cabinet)

- Better information about the intended purposes and social impact of programs and services, and their resource requirements, to aid decision-making.
- Development of a more strategic approach Government-wide to program and service planning, delivery and assessment.
- Increased confidence in the ability of General Government agencies to deliver programs and services consistent with the Government's social priorities and community needs, in a way which is both efficient and effective.

For General Government agencies

- Better information about the intended purposes and social impact of programs and services, and their resource requirements, to aid decision-making.
- Development of a clearly defined operating framework, with improved clarity about roles, responsibilities and expectations, to facilitate agency management and inter-agency co-operation and co-ordination.
- Increased managerial and financial flexibility.
- Streamlined relationships with central agencies (including reporting relationships).
- Active support from central agencies to line agencies in fostering continuous management and performance improvement.

However, implementation of individual components of the Framework will not be costless, particularly for agencies.

In recognition of this, an incremental approach to implementation will allow assessment of component costs and benefits. Components will not be fully implemented unless there is agreement that the benefits will outweigh costs.

The Framework will have benefits for all stakeholders.

An incremental approach to implementation will help ensure that benefits outweigh implementation costs.

17. POLICIES, GUIDELINES AND TOOLKITS TO BE ISSUED IN 2000-01

Key components of the Framework have been or will be issued in 2000-01 as described below.

- **Budget Outcomes and Outputs – A Guide to Performance Management**

An exposure draft was released in **August 2000**. The exposure draft was “road tested” through a joint pilot output and outcome definition exercise with Treasury and three key agencies. The results were incorporated in a working set of guidelines released in **October 2000**.

- **A Revised Service and Resource Allocation (SRAA) Timetable and Template for the 2001-02 Budget**

In conjunction with the October release of the Performance Management Guide, a revised timetable and template for the 2001-02 Service and Resource Allocation Agreements (SRAAs) were issued. The 2001-02 SRAAs will be negotiated with the relevant agencies as part of the 2001-02 Budget process, not subsequent to it.

- **Financial Analysis Guidelines**

These Guidelines will provide a common reference document to Treasury analysts and agencies to assist in the analysis of agencies’ performance and financial position using all available data. It is scheduled for release in **February 2001** and will immediately be applied to progressive analysis of reports against the 2000-01 Budget.

The Guidelines will be followed by a full review of reporting requirements and the release of a **Financial Monitoring Policy for the General Government Sector** in

The Financial Management Framework for the General Government Sector (TPP 00-4)

December 2001, in time to govern Budget and financial reporting for 2001-02.

Work will continue through 2000-01 on further development of costing principles for agency program and service delivery. These principles will be used to develop standards for agency costing systems (to issue in 2001-02).

Work will also proceed in 2000-01 on other elements of the Framework such as the General Government Accountability Statement.

Treasury will work closely with, and provide support to, agencies who themselves are introducing, or planning to introduce, their own efficiency, effectiveness, transparency or accountability mechanisms.

For example, Treasury is currently liaising with the Department of Health on the introduction of a capital charge for the Area Health Services.

Key components of the Framework for 2000-01 include:

- **Budget Outcomes and Outputs – A Guide to Performance Management;**
- **a revised Service and Resource Allocation (SRAA) timetable and template for the 2001-02 Budget;**
- **Financial Analysis Guidelines.**

APPENDIX A - GLOSSARY

Term	Description
Budget Committee	The Cabinet Standing Committee on the Budget, chaired by the Premier, which is tasked with overseeing the development of the State's fiscal strategy and the formulation of the State Budget.
Cabinet	The primary Policy Committee of the Executive Government, comprising all Ministers and chaired by the Premier.
Central agencies	The Cabinet Office, the Premier's Department and Treasury.
Executive Government	The "Government of the day" elected by the people of New South Wales.
Fiscal strategy	The Executive Government's medium-long term Budget plan which sets out the intended relationship between Government program expenditure and Government revenues.
Goods	Goods are tangible commodities provided by, or at the behest of, Government directly to the community. The provision of goods will often constitute one means of Government program delivery.
Government	The Executive Government plus Government agencies.
Government program	A set of activities undertaken by, or at the behest of, Government in order to achieve stated Government aims. Activities may include the provision of goods and services, regulatory activities, the formulation of policy advice and the administration of Government grants.
Line agencies	General Government agencies other than the Central agencies.

Outcomes	The impact of Government program and service delivery on the community.
Outputs	Agency activities and/or goods and services produced and delivered by an agency.
Output budgeting	Explicit purchasing by the Executive Government of <i>outputs</i> from program and service delivery agencies in order to achieve desired Government outcomes.
Performance budgeting	Explicit funding by the Executive Government of <i>program and service delivery plans</i> developed by program and service delivery agencies in order to achieve desired Government outcomes.
Program and service delivery plan	A set of program and service delivery strategies.
Resource allocation	The process whereby the mix of Government programs and services is determined and funding allocated through the State Budget.
Resource management	The process of translating funding into the resources required for program and service delivery and building delivery capacity.
Services	Services are a tangible set of activities supplied by, or at the behest of, Government directly to the community. Service provision will often constitute one means of Government program delivery.
Stakeholders	Parties with a particular interest in Government program and service delivery. Typically stakeholders include Parliament, the Executive Government, line and central agencies, users of Government services and taxpayers.

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