Public Expenditure Management

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Public Expenditure Management serves to match:

- the limited financial resources of government - against
- the unlimited wants of the community.

Government expenditure imposes costs on the community:

- for the current generation, if funded through taxes
- for future generations, if funded through borrowings

Government must manage these costs

Government must maximise the services that can be delivered within constraints – the value for money principle.
Public Expenditure Management is exercised through both:

- **Policy frameworks**
- **Institutional frameworks.**

The key policy frameworks for expenditure management are:

- A fiscal strategy – which establishes fiscal targets for the government to achieve, such as expenditure growth and debt to GSP ratios
- Budget rules that set constraints to deliver the fiscal strategy – such as all new spending to be offset by expenditure savings of an equivalent amount.
The key institutional frameworks for expenditure management are:

- a decision making forum that sets the fiscal strategy and budget rules which allocates resources within established budget constraints
  
  * This is typically the Expenditure Review Committee (ERC) of Cabinet

- clear accountabilities for the delivery of both the whole of government budget (the Treasurer) and agency budgets (Directors General)

- financial management information systems that allow for accurate, real time analysis of expenditure decisions and longer term trends.
Tools that are applied to expenditure management include:

- Evaluation of expenditure - cost effectiveness and efficiency

- Periodic reviews of agency budgets including zero based budgeting – to realign spending activities with government objectives

- Data collection and reporting frameworks that assist ERC to make resource allocation decisions, including program information and performance data.
The current government has implemented and continues to implement reforms to its macroeconomic public expenditure tools.

A key reform to its policy framework for expenditure management has been amendments to the Fiscal Responsibility Act in 2012.

Prior to 2012 the Act contained a number of different targets, many of which had not been met for several years. A 2012 review of the Act found that:

...the review finds that many targets and principles have not been met. There has been no attempt to return to the unmet targets, nor has there been acknowledgement of the departure from principles and provision of the reasons, the remedies, and the time frame to return to them, as required under the Act.

In response to the review, the Government amended the FRA in 2012 to improve transparency, accountability and delivery of the fiscal strategy.
Program Expenditure Management

- Transparency and increased accountability have been achieved through:
  - A simpler Act that clearly defines the objectives of the Government’s fiscal strategy and targeted, well defined fiscal targets.

- The core elements of the FRA are:
  - A single fiscal strategy objective – to retain the triple-A credit rating
  - Two unambiguous and easily measurable fiscal policy targets:
    * Expenditure growth less than long run revenue growth
    * Elimination of unfunded superannuation liabilities by 2030
The FRA therefore establishes, through legislation the high level framework for public expenditure management in NSW.

Section 6(a) of the Act requires the Government to achieve the following target:

- The annual growth in general government expenses of the State is less than the long-term average general government revenue growth of the state.

The purpose of this target is that the government lives within its means – growth in government expenditure does not exceed the growth in revenue available to fund it.

This is the high level budget constraint against which ERC makes its resource allocation decisions in the budget.
Institutional reforms also support expenditure management.

These follow recommendations of the Lambert Report and the Commission of Audit (Schott Report).

A key element is clarifying and strengthening accountabilities:

- Expenditure Review Committee, is accountable for whole of government expenditure management

- Ministers and Directors General are accountable for managing expenditure with the budgets allocated to them by ERC

- Directors-General have performance agreements with the Premier, of which budget management is a key criteria.
A major recommendation for institutional reform in the Schott report was the financial information management and reporting framework in the NSW.

To deliver on the expenditure growth targets in the FRA requires timely, accurate and detailed information on government expenditures.

As outlined in the Commission of Audit, the framework has not kept pace with the needs of government and fundamental reform is required.

Shortcomings of the current framework are:
- Poor information due to inadequate systems and poor data quality
- A lack of visibility and accountability of resource allocation in clusters
- Inadequate financial skills in both finance staff and executives.
NSW Treasury is leading a Transformation project to reconstruct the financial management framework in NSW from its foundation.

The key elements of the project are:

- Program level visibility of financial information
- An effective evaluation process for resource allocation
- Better planning and management of capital and assets
- A comprehensive improvement of financial data systems
The FRA sets the high level framework for PEM – the expenditure growth target.

At a operational level, specific data sets and processes inform how expenditures are to be allocated within this overall budget constraint.

- The key data set for government is program level information
- The key process is program evaluation.
Program Expenditure Management

- Program Budgeting enables a clear understanding of the opportunity cost of our resource allocation decisions.

- Program budgeting will provide a more information about agency activity.

- This reform will require agencies to report and budget against programs which include activities, services or outputs delivered by agencies.

- The reform will also enable in-depth analysis and evaluation of existing allocations and performance alongside key metrics.

- This will improve information on the relative merits of expenditure priorities.
The Centre’s objectives are to:

- Undertake significant evaluations
- Contribute to the development of evaluation capacity across government
- Advising agencies on good evaluation design and practice

The Centre will play a key role in program expenditure management:

- At a whole of government level – through better resource allocation
- At an agency level – through better information on the costs and outputs of different programs.
Financial Management Transformation
Changing the paradigm

- Financial Management Transformation is targeting fundamental reform of how the NSW public sector works – the current status quo won’t work.
- Transformation is a wide-ranging, integrated, multi-year program designed to secure lasting change.
- To improve public financial management, we need to address the core underlying issues, and improve:
  - Transparency
  - Accountability
  - Rigour
  - Strategic perspective
The ‘Why’

**GOAL**

- **AFFORDABILITY**
  - Sustainable aggregate fiscal position

- **VALUE**
  - Value for money for taxpayers

- **PRIORITY**
  - Resources allocated to government priorities

**RISK**

- Fiscal gap and debt growth, unclear prioritisation, untested value for money
- Unreliable data, inadequate information, risk of system failure

AAA rating, service & infrastructure commitments at risk
The ‘What’

Out-dated legislation and compliance regime

RULES
Governance and compliance

TOOLS
Information systems

PEOPLE
Capability, roles and responsibilities

PROCESS
Budget, program and asset cycles

Information system inadequate and at risk of failure

Unclear accountabilities and capability issues

Burdensome processes with marginal, short-term focus
New end state

New legislation supports clear, flexible and effective compliance regime

Accountability aligned with authority, and capability improved sector-wide

RULES
Governance and compliance

TOOLS
Information systems

PEOPLE
Capability, roles and responsibilities

PROCESS
Budget, program and asset cycles

New systems improve transparency and give decision-makers the information they need

Improved processes to support more strategic ERC
Managing Public Sector Expenditure

**RULES**
- New principles-based legislation (if agreed)
- Comprehensive standards-based compliance regime
- Cascading accountability aligned with authority

**TOOLS**
- New financial information system
- Improved data quality, reliability and timeliness
- Expanded functionality and ease of use
- Single source of truth

**PEOPLE**
- More influential CFOs
- More highly skilled finance staff
- More financially aware and accountable operational managers

**PROCESS**
- Comprehensive financial controls and risk mgmt
- Longer-term planning
- Program reporting and lifecycle management
- Integrated asset management with whole-of-life focus
The ‘How’

**POLICY FRAMEWORK**

- Governance & Legal
- Administration
- Risk Management
- Capital Management
- Budget Policy
- Program Reporting

**SYSTEMS**

- Core systems replacement

**TREASURY TRANSFORMATION**

- Consistent efficient practices
- Effort focused on biggest issues
- Collaborative culture internally and externally
- Innovative and energetic approach
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<td>Strengthening of total asset management</td>
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<td>Clarify roles and responsibilities for financial management</td>
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<td>A longer term focus</td>
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New governance structure

Expenditure Review Committee
- Treasurer (Chair)
- Premier
- Deputy Premier
- Minister for Finance

Senior Management Council
- Cluster Directors-General
- Public Service Commissioner

Steering Committee
- Associate Secretary Fiscal and Economic (Treasury) (Chair)
- Executive Director, Transformation (Treasury)
- Deputy Secretary Fiscal and Economic (Treasury)
- Associate Secretary Resource Allocation (Treasury)
- Deputy Director-General, DPC
- Deputy Director-General, DFS
- Deputy Director-General, DITRS
- Deputy Director-General, Health
- Deputy Director-General, Transport

Expert Advisory Committee
- Associate Secretary Fiscal and Economic (Treasury) (Chair)

Central Agencies Liaison Group
- Executive Director, Transformation

ICT Board
- DG, DFS (Chair)

Transformation team

CFO Advisory Committee
- Associate Secretary Fiscal and Economic (Treasury) (Chair)

Treasury Executive

Indicative working groups
- Working Group 1
- Working Group 2
- Working Group 3
- Working Group 4

Conduct program work
- Provide advice
- Informed / consulted
- Make decisions
Progress to date

**Implemented**
- Single cluster appropriations
- Zero tolerance for net cost variation
- Formalised DG budget accountability
- Rollover policy introduced
- Restrictions on supplementation and PTAs

**In progress**
- Improved early close procedures
- CEO attestation requirements
- CFO and agency CEO budget accountability
- Strengthened CFO role and qualifications

**In development**
- New legislative and regulatory framework to improve accountability and compliance
- Enhanced processes to drive strategic approach to budget, program, asset and risk management
- Modern financial information system to improve transparency and reliability
- Strengthened financial management capability (led by PSC across the sector)
Program Evaluation
Why the move toward *program evaluation*?

The Government is delivering a series of reforms to:

- better understand program outcomes
- make better evidence-based decisions about services

The **NSW Commission of Audit** recommended that:

- Government *improve program information*
- **NSW Treasury** lead evaluation of *large programs*
- *agencies* establish a *schedule of evaluations* for new and existing programs
NSW Treasury is leading the development of program evaluation to assist public expenditure management.

The Secretary of the Treasury recently launched the Centre for Program Evaluation, located within Fiscal and Economic Group in NSW Treasury.

The origins of the Centre lay in the Commission of Audit recommendations:

- Better scrutiny of new policy proposals and build evaluations into all approvals of new expenditure
- Significant programs should be evaluated through third party review
- Some program evaluations should be mandated.
The CPE:

- **leads** good practice in conducting evaluations of large & significant programs

- **advises and engages with** agencies **on evaluation design & planning** for key government programs

- is building evaluation capability across NSW government through the **Evaluation Community of Practice**
To develop evaluation capability the Government has:
• established the Centre for Program Evaluation
• launched the Evaluation Community of Practice
• developed the Evaluation Toolkit and website

The Framework provides guidelines on:
• making program evaluation core business
• key principles of good evaluation practice

Program evaluation will be:
• driven by agencies
• supported by NSW Treasury and other central agencies
The Centre for Program Evaluation will:

• evaluate **large and significant programs**

• provide **advice** to agencies **on evaluation design & planning** for key government programs

• build evaluation capability across NSW government through the **Evaluation Community of Practice**
The Evaluation Community of Practice (ECOP) is open to everyone interested in program evaluation.

The ECOP will:

- encourage knowledge sharing and professional development
- hold regular networking events
- encourage evaluation to better inform government decision-making

Go to http://policytoolkit.nsw.gov.au/evaluation
The toolkit is for those people:

- commissioning evaluations
- managing evaluations

It can be accessed via the ECOP website.
Contact the Centre for Program Evaluation at:
evaluation@treasury.nsw.gov.au
Welcome to the Evaluation Community of Practice!

This website supports the Evaluation Community of Practice and provides a forum for people from government and non-government organisations to share and discuss ideas, build relationships and access relevant resources on evaluation.

We encourage all members to actively contribute to discussions and attend events.

NSW Evaluation Toolkit

To help agencies implement the Evaluation Framework and build evaluation capability across the public sector, we have developed the NSW Evaluation Toolkit. The toolkit provides advice and resources for planning and conducting a program evaluation. It has been designed to support managers who are commissioning or managing an evaluation. It is also a reference for non-government organisations and external evaluators involved in evaluations with the NSW Government.