

OVERVIEW

The NSW Treasury Expenditure Review Directorate (“ERD”) was established in 2009 to help ensure value for money in State Government expenditure, and to assist Government in aligning expenditure growth with revenue growth across the Forward Estimates period to ensure a sustainable basis for Government services.

ERD comprises three branches and a Program Management Office, which report within NSW Treasury to a Deputy Secretary. These three branches are:

- Agency Review Branch
- Whole of Government Reviews Branch
- Business Review and Wages Review Branch

Reviews conducted by ERD are prepared for the consideration of the Cabinet Standing Committee on the Budget (Expenditure Review) (“Expenditure Review Committee”[ERC]).

Agency Review Branch

Agency Review Branch undertakes expenditure reviews collaboratively with general government agencies to improve the efficiency and effectiveness of agency expenditure, and ensure their growth in expenditure is within the parameters bounded by their approved forward estimates.

Their review focus is on identifying opportunities in individual agencies which would provide better services and value on a lower expense basis within agency forward estimates. These reviews consider the full range of activities and expenses undertaken by agencies.

Whole of Government Reviews Branch

Whole of Government Reviews Branch reviews discrete areas of whole of government expenditure, such as information and communication technology (ICT), legal services and fleet management which are common across agencies. These reviews use a strongly evidence-based approach based on standardised data to support reforms that achieve efficiencies and improve service delivery.

Whole of government reviews capture all general government agencies and public trading enterprises, excluding State Owned Corporations which are reviewed separately by the Business Review and Wages Branch.

Business Review and Wages Branch

Business Review and Wages Branch has responsibility for financial performance reviews of government businesses including State Owned Corporations (“SOCs”). This branch is also responsible for monitoring and advising on the Government’s wages policy, which requires employee-related savings to offset wage increases above 2.5 per cent per annum.

The business review arm of the branch assesses the effectiveness of SOC governance arrangements and the demonstrated business performance of Government businesses.

The wages policy function of the branch assesses and provides advice on the sustainability of wage increases, and further monitors the implementation of measures to achieve wages offsets.

ERD Program Management Office

The ERD Program Management Office (“PMO”) provides the ERD Deputy Secretary with program reporting across all of ERD. It monitors the status of ERD reviews, budget, risk and issues, and consultant performance. Across ERD it promotes actions that strengthen ERD’s project management capability and takes on various administration tasks as required.

The Better Services and Value Plan

ERD helps to support the Better Services and Value Plan (“the Plan”), which was announced in the 2009-10 State Budget. The Plan seeks to ensure the efficiency and effectiveness of Government expenditure, support sustainable expenditure growth and respond to challenges in economic conditions.

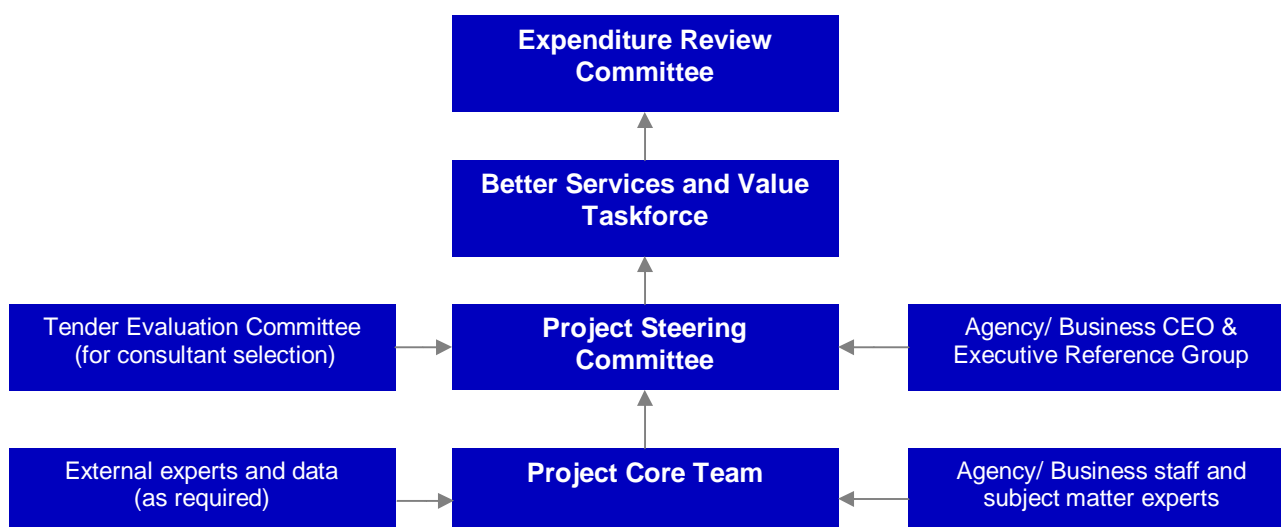
The Plan comprises the following initiatives:

- 1) Maintaining the Government’s wages policy, which requires productivity offsets for increases above 2.5 per cent, and extending the public sector staff freeze
- 2) Amalgamating 160 government agencies and offices into 13 to improve services delivery and achieve economies of scale
- 3) Whole of government expenditure reviews
- 4) Agency expenditure reviews
- 5) Reviews of the financial performance of all state owned corporations, including performance of the board.

The review streams are carefully coordinated to avoid any duplication and to ensure consistency of approach and results.

GOVERNANCE

Governance arrangements are broadly common across all review projects, as depicted in the following diagram:



Expenditure Review Committee (ERC)

All reviews are undertaken for the express purpose of reporting to Cabinet through ERC.

The Terms of Reference for each review are approved by ERC and final review recommendations are considered by ERC.

Better Services and Value Taskforce (BSVT)

Reviews report to the Better Services and Value Taskforce (“the Taskforce”). The Taskforce comprises an independent chair, the Director-General of the Department of Premier and Cabinet, the Secretary to the Treasury and a private sector independent. The Taskforce is responsible for:

- overseeing implementation of the Better Services and Value Plan and monitoring performance
- reporting and making recommendations to ERC on each review, including Terms of Reference, recommendations and monitoring implementation
- reporting to ERC on the Better Services and Value Plan.

Project Steering Committee

Reviews are undertaken under the oversight of a Steering Committee. In general, this committee comprises members including:

- Expenditure Review Directorate, Treasury
- Resource Allocation Directorate/ Commercial Business Branch, Treasury
- Department of Premier & Cabinet (“DPC”)
- Senior Executive, Agency/ Government Business

Business/ Agency Head & Executives (Expert Reference Group)

The business/ agency executive leadership team operates as an Expert Reference Group. This group provides expert input into the direction of reviews, drives engagement with the project across the relevant business/ agency, and advises on key stakeholder issues.

Tender Evaluation Committee

At times, it may be necessary to engage external consultants to assist in the conduct of the expenditure reviews undertaken by ERD. Consultants can provide specialist expertise including benchmark data and insights from experience with other jurisdictions and the private sector. Consultants can also bring an independent perspective to complex issues, and support flexible project-based resourcing to supplement the core resources in ERD.

Where required, consultants are selected and engaged in accordance with Government Guidelines, including: *C2004-17 Guidelines for the Engagement and Use of Consultants*; and *C2008-34 Prequalification Scheme: Performance and Management Services*. These guidelines are available at www.dpc.nsw.gov.au.

Consultants are selected via a merit based tender process on the basis of the consultants’ expertise and experience, their approach to the reviews, capacity to meet timetables, ability to meet probity requirements and value for money. The evaluation committee ensures that the Government’s procurement guidelines and procedures are adhered to and satisfied. The committee is chaired by a senior Treasury officer, and includes a senior nominee from DPC and the relevant business/ agencies.

Core Team Working Group

The core review team undertakes the review and report their work to a Steering Committee. The review team comprises staff from ERD and other relevant Treasury staff, working in cooperation with the agency under review, DPC and the selected consultants (if required). The review team works collaboratively to deliver all aspects of the review, including data collection, analysis, interpretation and solution development. All of these parties in the core team undertake allocated tasks and actively contribute to the work of the team. Especially on agency and Government business reviews, representatives of the agency/ business under review are full and active participants in the core team, with shared responsibility for all work stages of the review.

Where engaged, the consultants are responsible for project managing the review to achieve the outcomes specified at the beginning of the review and in collaboration with the other members of the review team.

Representatives of the agency/ business under review are responsible for providing information as requested and arranging access to subject matter experts within the agency as required. The agency/ business are also responsible for managing internal communication, coordination and liaison to support the review process as required.

Analysts from the Resource Allocation Directorate or Commercial Business Branch within NSW Treasury ensure continuity with Treasury's ongoing work with the agency/ business under review.

KEY STAKEHOLDERS

Ministers

Agency/ business heads are responsible for informing their Ministers of the progress of the review. For agency reviews, which by their nature focus on the portfolio of a particular Minister or Ministers, the Portfolio Minister has the opportunity to be interviewed to provide input at the start of the review.

Director General/ Chief Executive Officer

The agency/ business representative on the Steering Committee is expected to liaise closely with the Director General/ Chief Executive Officer throughout the progress of the review. As head of the agency/ business executive, the Director General/ Chief Executive Officer will lead the Expert Reference Group. The Director General/ Chief Executive Officer may meet with the review team and/or Steering Committee at key points of the review and the Better Services and Value Taskforce when the final report is considered.

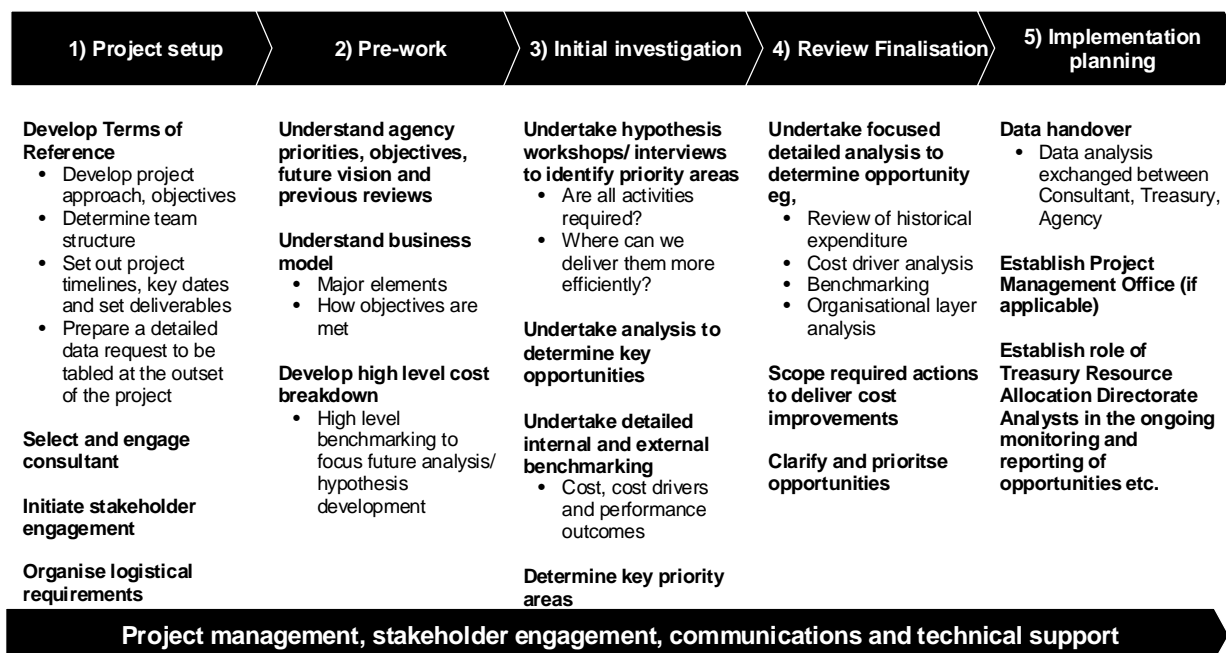
External and Internal Stakeholders

Where necessary, the agency/ business under review have lead responsibility for liaising with staff, unions, community groups and other external stakeholders who raise concerns about the review. Significant issues are first brought to the Steering Committee for discussion.

METHODOLOGY

All ERD expenditure reviews follow a common overall methodological approach. The ERD PMO plays a core role in ensuring overall consistency, and sharing of best practices.

The five key phases of the reviews are summarised in the diagram below. The timelines shown are typical for agency and government business reviews; whole-of-government reviews may have a more extended timeline, since information must be collected and analysed across multiple agencies.



1) Project setup

Develop Terms of Reference

During the Project Setup phase, Terms of Reference are developed. The Terms of Reference set out: the objectives, approach and scope of the review, the review's context and relationship of the review to any other current processes, the governance framework, the project schedule, the role of the consultant and the key deliverables from the review.

The Terms of Reference are based on a standard template to ensure consistency between reviews, and are developed in consultation with key stakeholders including Treasury, DPC, and agency or Government business representatives as relevant.

Select and Engage Consultant if required

Where a consultant is required, the procurement process for a consultant is completed concurrently during the agreement of the Terms of Reference. This process includes: obtaining approval to engage consultants, selecting potential tenderers under the prequalification scheme for performance and management services, distribution of requests for proposals, evaluation of proposals through the tender evaluation committee, recommendation and notification of unsuccessful tenderers.

Preliminary Stakeholder Engagement

Stakeholder engagement is critical to the success of an expenditure review. This is a particular focus for agency and Government business reviews, where the success of the review and effective implementation of resulting recommendations is heavily dependent on agency involvement. For these reviews, during the project setup phase, working relationships for the project ERD, the relevant Treasury Resource Allocation Directorate, DPC and relevant agency officials are initiated.

During this phase Treasury project staff will meet with the agency Director General and seek nominations for membership to the project steering committee, core project team and nomination of an agency senior officer who will coordinate data requests and logistics with the project team. In addition, agency executives will be advised of their role as a project reference group.

A series of presentations and meetings are undertaken with key stakeholders in DPC, Treasury and the agency under review. The purpose of these meetings is to familiarise them with the proposed project timeline, resourcing expectations, and to ensure their active support throughout the review.

A stakeholder communication plan is drafted and circulated amongst agency core team members, to ensure that consistent messages are being communicated to agency staff about the review.

Logistical and Data Requirements

Initial logistical and data requirements are discussed with the nominated agency senior officer. For agency/ business reviews, work spaces within agency premises are allocated for the length of the review, and initial requests for data are discussed with the agency. Data requested includes:

- Information on previous reviews and the status of their recommendations, including program evaluations, performance reviews, audit reports, etc.
- Details of existing savings and efficiency plans and their status
- Key agency planning and reporting materials, including both internal and external documents
- Detailed information on agency staffing and financials, including workforce profile, payroll data and general ledger for current and 3-5 prior years

For whole-of-government reviews, the data collected will depend on the specific issue under consideration. Data collection may include detailed surveys and downloads from agency information systems. All reviews have a strong emphasis on evidence-based decision-making.

2) Pre-work

Prior to the official kick off of an agency/ business expenditure review, considerable analysis of the agency is performed by ERD in consultation with the relevant Treasury Resource Allocation Directorate. Analysis of the agency's operating environment, operating model, the agency's state plan targets, priorities and objectives is undertaken. Analysis undertaken draws on a variety of information sources such as the agency's mission, strategy, stated goals, previous reviews and financial data that is contained within the agency's financial system.

High level financial analysis and benchmarking is undertaken during this stage of the project to ensure that a high level understanding of outcomes is obtained to focus future analysis and development of hypotheses. During this phase, historical performance and trends, cost drivers and emerging themes are analysed.

Following the engagement of external consultants, the consultant is required to develop a project plan, which is provided to the steering committee for approval. The consultants are also required to familiarise themselves with pre-work that has been completed.

For whole-of-government reviews, ERD will undertake extensive initial research which may include literature reviews, inter-jurisdictional consultation, inter-jurisdictional and international benchmarking, and extensive consultation across the NSW government sector. In some cases, this research will be developed through the review into a comprehensive, stand alone benchmark report that provides a consistent basis for assessing agency performance across government compared to peers and to global best practice.

3) Initial investigation

During this phase of the project, a list of potential areas for savings and efficiencies (i.e. 'hypotheses') are developed. Hypotheses are developed from information obtained from interviews with senior staff from the agency/business under review, workshops with the core team, in-depth

financial analysis, cost driver analysis, analysis of previous reviews, and internal and external benchmarking of costs and service outcomes. Benchmarking helps to identify issues requiring further investigation, and to scope the benefits that may be achievable from consistent application of internal or external best practices.

The hypotheses that are proposed are developed with agency representatives to ensure buy in from the agency as to the feasibility of the opportunity. Preliminary analysis to estimate the size of opportunities is conducted, and potential risks and implementation considerations are determined.

Outcomes from this phase may be compiled in a mid-review progress report, which provides a summary of potential hypotheses that have been developed to date. The steering committee provides guidance regarding which hypotheses are to be pursued and prioritised.

On agency/ business reviews, during phase 3 and 4 of the review, regular meetings are also held with all key stakeholders including the core team, steering committee and the agency executive team. The meetings provide an opportunity for the key stakeholders to discuss potential hypotheses being developed, and any risks and issues arising. Whole-of-government reviews may arrange cross-agency workshops and information sessions to engage stakeholders through these stages.

Additionally, the ERD PMO receives weekly reports on the status of current projects.

4) Review finalisation

The review finalisation phase of the project is characterised by the detailed analysis arising from the agreed hypothesis developed within phase 1, and by the areas of focus identified within the mid-term progress report. During this phase the various opportunities are clarified and prioritised based on opportunity size and the relative ease of implementation.

The single key deliverable of this phase is the final report. The report is to be structured in key components which may include:

- the scope and conduct of the review
- baseline of the agency/business including size and structure, core role, and overall strategic directions and challenges, or outline of the expenditure category under consideration in a whole-of-government review
- for agency/ business reviews, the agency/business budget position including historic budget performance, cost and demand driver analysis, projected savings targets and budget risks, offset by already identified savings
- a range of efficiency options for Government, including quick wins, short- or medium-term policy changes, and longer-term strategic reforms. Savings or efficiency measures may range from tighter application of existing policies and matters within the scope of administrative decision to policies requiring Cabinet consideration and changes which involve legislative amendment
- the implementation framework required to deliver the recommended measures, including high-level summary of governance, systems, resourcing, monitoring and reporting requirements.

The final report is tabled by the steering committee and submitted to the Better Value and Services Taskforce for endorsement. The final report is presented to the Expenditure Review Committee with a cabinet minute developed by ERD based on the recommendations of the report. The minute is developed in consultation with the agency/business and the relevant Resource Allocation

Directorate (“RAD”) or Commercial Management Branch of Treasury. In the case of SOC reviews, the report will be submitted to the SOC Board, which will provide a formal response.

5) Implementation planning

At the conclusion of the project, actions are taken to ensure that review recommendations adopted by Government are implemented and benefits are realised.

Data and working files developed over the course of the review are handed over to stakeholders responsible for driving recommendations and monitoring impacts, including agency/business representatives and Treasury analysts.

Following completion of the review, Treasury analysts from the relevant Resource Allocation Directorate or Commercial Management Directorate who lead Treasury’s ongoing relationship with the agency/business will be responsible for liaising with the agency/business on implementation and for monitoring and reporting on the progress and impact of recommendations as part of their business as usual activities.

For Agencies, the responsibility for implementation of measures agreed by Cabinet lies with the agency Director-General and Executive. In most cases, a Project Management Office (PMO) will be established within the agency to support the implementation of recommendations from the review. The agency PMO is responsible for working with key stakeholders within the agency to progress recommendations, including developing project plans, establishing roles, responsibilities and timelines, facilitating implementation and tracking realisation of benefits. For SOCs, responsibility for the implementation of recommendations lies with the SOC Board.

Regular report backs to Treasury, the Better Services and Value Taskforce and ERC are scheduled to monitor progress, address issues that arise in implementation, and to consider further long-term reforms as required.

NSW Treasury
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