

NSW Treasury Policy and Guidelines: Guidelines for Community Service Obligations

TPG23-19

August 2023

Acknowledgment of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:

Regeneration by Josie Rose



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Version 1.0	August 2023	Commercial Assets	Secretary	The updated guidelines clarify and strengthen the process for establishing, funding, reviewing, and monitoring CSOs.

1 Guidelines for Community Service Obligations

1.1 Purpose

The purpose of these Guidelines is to:

- improve the transparency and consistency of Community Service Obligations (CSO) arrangements
 - ensure the Government's policy objectives are achieved without impacting on the commercial performance of government businesses, and
 - outline the process for establishing, funding, reviewing and monitoring CSOs.
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1.2 Overview

Public Non-Financial Corporations (PNFCs), including State Owned Corporations (SOCs), and Public Financial Corporations (PFCs) (together, government businesses) operate in a market for goods and services, and charge a price to consumers or industry. There may be situations, however where a request is made for a government business to undertake activities on behalf of the Government that do not align with its commercial objectives. These activities are commonly known as CSOs.

CSOs provide an option for Government to address a policy objective through delivery by a government business. The circumstances where CSOs can be requested are varied, and include situations such as market failure, in response to social or public policy issues or in provision of social benefits to a targeted group in the community.

These Guidelines outline the process for commissioning the delivery of CSOs and establishes the expectations on government businesses in delivering CSO activities.

1.3 Related legal obligations

These Guidelines support the obligations and operation of the *Government Sector Finance Act 2018* (GSF Act). The objects of the GSF Act most relevant to these Guidelines are as follows:

- to promote and support sound financial management, budgeting, performance, financial risk management, transparency and accountability in the government sector and by GSF agencies and government officers (section 1.3 (a)); and
- to facilitate the keeping and sharing of performance information in the government sector for the purposes of decisions about resource allocation (section 1.3 (f)).

State Owned Corporations

Under the *State Owned Corporations Act 1989* (SOC Act) a SOC Portfolio Minister can issue a direction to a SOC to perform non-commercial activities (under section 20N) or give notice of public sector policies that are in public interest (under section 20O) or other activities in the public interest (under section 20P). All three directions (20N, 20O and 20P) require the Treasurer's approval. The SOC Act outlines how the Portfolio Minister's power to direct is to be used (see section 2.4.2)

1.4 Entities to which this policy applies

These Guidelines apply to:

- government departments in their capacity as entities that commission and fund CSOs; and
 - government businesses who implement CSOs on behalf of government departments.
-

1.5 Exemptions

Government departments may apply to Treasury seeking consideration of a fixed term exemption from meeting the mandatory requirements for a CSO arrangement under these Guidelines.

In requesting exemptions, government departments should outline to Treasury the matters that restrict its ability to meet with the requirements under these Guidelines. The Secretary, or their delegate, may consider an exemption where specific conditions warrant the exemption.

Government businesses should report any exemptions granted under these Guidelines in their annual Statements of Intent and Business Plans.

1.6 Roles and Responsibilities

Government departments are responsible for:

- ensuring requests from their responsible Minister or by their departments to government businesses adhere to these Guidelines.

Government businesses are responsible for:

- ensuring any CSO requests from government departments or Ministers align with these Guidelines, and
- notifying Treasury of requests from government departments, a responsible Minister or Portfolio Minister to deliver a CSO.

Treasury is responsible for:

- facilitating engagement between government businesses and government departments to ensure these Guidelines are followed in the commissioning and delivery of CSOs.

Appendix 2 outlines further detail on roles and responsibilities.

1.7 Summary of Requirements

Mandatory

1. A CSO should have a clearly defined objective.
2. To be considered a CSO, an activity must satisfy the following criteria:
 - a. Activities should support a clearly defined target group, and/or resolve an exceptional circumstance.
 - b. Activities should be non-contestable and delivered on a net cost basis.
 - c. Funding to cover the net cost must be provided by the designated government department.
3. CSOs should be initiated through one of the following ways only:
 - a. in pursuit of State Outcomes by government departments for activities delivered by government businesses; or
 - b. under a SOC Act Ministerial Direction to a SOC.
4. A CSO should be formalised through a Service Level Agreement.
5. A CSO should be monitored and reviewed on an ongoing basis.

Recommendation

For existing CSOs:

- government departments and government businesses ensure SLAs are aligned with these Guidelines and are implemented by June 2024.
- if government departments believe they are entitled to an exemption from application of these Guidelines, they should apply for an exemption by June 2024.
- government departments plan and schedule an evaluation with government businesses of existing CSO arrangements that have been in place for over five years by June 2024.

2 Establishing Community Service Obligations

2.1 What is a Community Service Obligation?

The term CSO is used in the government context to commonly refer to the delivery by government businesses of activities commissioned by Government for a specific social, market failure or policy purpose.

These Guidelines support the following definitions of a CSO:

A community service obligation arises when the Government specifically requires a public enterprise to carry out activities which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices¹.

Steering Committee on National Performance Monitoring of Government Trading Enterprises

Community service obligations can also be viewed as payments made by government to deliver specific community services at below cost or no cost to final consumers or industry regardless of variations in the cost of supply².

Australian System of Government Finance Statistics: Concepts, Sources and Methods Australia

CSOs should be established using the principles outlined in these Guidelines.

2.2 Objectives of CSOs

Mandatory

1. A CSO should have a clearly defined objective.

Guidance

CSO objectives should demonstrate a strategic fit with Government's high-level objectives, typically shown through alignment with State Outcomes.

CSO objectives should therefore be State Outcome focused rather than focused on the potential solution.

State Outcomes are normally presented from a community or customer perspective and broken down into individual programs. Likewise, CSOs should also be viewed as programs facilitating the realisation of State Outcomes.

Where appropriate, logic models can be used to demonstrate the link between CSO objectives and State Outcomes. *TPG22-22 Policy and Guidelines: Evaluation - Section 5.1* provides more guidance on

¹ Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPMGTE) 1994 p 8.

² Australian System of Government Finance Statistics: Concepts, Sources and Methods Australia 2015 p 296

when and how to use logic models. The process of developing a logic model builds a shared understanding of the CSO.

Practice Guide 1 sets out the recommended process for establishing a new CSO.

2.3 CSO criteria

Mandatory

2. To be considered a CSO, an activity must satisfy the following criteria:
 - a. support a clearly defined target group, and/or resolves exceptional circumstances.
 - b. non-contestable and delivered on a net cost basis.
 - c. funding to cover net cost associated with a CSO must be provided by the designated government department.

Guidance

The following criteria enables Government to consider whether activities should be characterised as a CSO.

2.3.1 Activity supports a clearly defined target group

CSOs are intended to benefit a segment of the population that would not otherwise have access to goods and services that can be delivered by government businesses, rather than a segment that already has access and affords those goods and services. To be effective, a CSO should principally benefit those needing access to the good or service.

For example, the following factors could be used to identify target groups that will benefit from a CSO:

- Affordability: situations in which low-income earners or households may not be able to afford an essential good or service; or
- Cost differences of essential goods and services: situations where costs are dramatically different for two or more groups of consumers, resulting in one group facing prices exceeding their ability to pay for those goods and services. Cost differences are often likely to arise between different geographic areas.

2.3.2 Activity resolves an exceptional circumstance

Exceptional circumstances may require Government to take action to alleviate, or mitigate, unforeseen or unconventional catastrophes. Such circumstances can include, among other things:

- market failure;
- extreme weather events associated with severe droughts, floods and bushfires;
- depletion of water sources used for human consumption; or
- pandemics and epidemics.

2.3.3 Contestability and non-contestability

Contestability is the process of evaluating and benchmarking services against credible alternatives and/or market testing, to drive productivity, learning and improvement. Contestability is concerned

with overcoming complacency of monopolistic services, whether provided by the public, private or non-government organisation (NGO) sector.³

Non-contestability exists where it is difficult or impossible to evaluate and benchmark services against credible alternatives due to a lack of information and market depth. Non-contestable markets usually have few businesses with varying degrees of monopoly power.

In determining whether an activity is not contestable and one that only government businesses can deliver, the following matters should be considered:

- why a private sector business or not-for-profit NGO is not better placed to achieve this policy objective; and
- how a CSO is best placed to achieve the policy objective.

If it is determined that the activity is contestable normal procurement processes should be followed.

2.3.4 Funding the CSO

The net cost of a CSO should be funded by government departments best placed to deliver the State Outcome aligned with the CSO's policy objective. This is to ensure government businesses are not disadvantaged financially.

Recurrent and/or capital proposals must be included as part of the normal budget process for funding decisions of the responsible government department. Depending on the nature of the CSO, this may be subject to approval by the Expenditure Review Committee (ERC).

CSOs should be costed by government businesses. Consultation between responsible funding government departments and government businesses should seek to ensure CSOs are effectively carried out without the need for any cross-subsidisations from government businesses.

Practice Guide 2 provides guidance on activities commonly undertaken by government businesses that would not typically meet the criteria of a CSO. If there is ambiguity on whether an activity satisfies the criteria, government departments and government businesses should seek advice from Treasury.

³ TPP16-05 NSW Government Commissioning and Contestability Policy p8.

2.4 Commissioning a Community Service Obligation

Mandatory

3. CSOs should be initiated through one of the following ways:
 - a. in pursuit of State Outcomes by government departments for activities delivered by government businesses; or
 - b. under a SOC Act ministerial direction to a SOC.

Guidance

2.4.1 State Outcomes

Government departments may request government businesses to undertake activities that achieve State Outcomes.

Government departments are encouraged to identify how the activity will contribute towards attainment of the State Outcome using the principles set out in *TPP18-09 Outcome Budgeting*.

2.4.2 Ministerial Directions to SOCs

SOC Act ministerial directions can be used to initiate CSOs through SOCs. The three relevant types of ministerial directions under the SOC Act are:

- Section 20N - Non-commercial activities
 - A Portfolio Minister, with approval of the Treasurer, may request a SOC to perform activities in circumstances where the SOC considers that it is not in their commercial interests to do so.
 - The SOC is entitled to be reimbursed, amounts equal to the net cost of performing any such activities, including the cost of capital.
- Section 200 – Public sector policies that are in public interest
 - The Portfolio Minister with the approval of the Treasurer may notify the board of a statutory SOC, in writing, of a public sector policy that is to apply to the SOC and its subsidiaries if the Portfolio Minister is satisfied that it is necessary to give the notification in the public interest.
 - The SOC may be reimbursed, amounts not exceeding the estimated net cost of complying with such a notification, or the estimated net amount of revenue forgone through complying with such a notification.
 - A section 200 direction is typically used where the Government is providing procedural guidance on administrative requirements to SOCs. Administrative requirements are whole of government administrative directions, policies and guidance that are issued by various entities to the NSW Government sector for standardising and improving governance and performance outcomes.
- Section 20P – Exceptional circumstances in the public interest
 - The Portfolio Minister, with the approval of the Treasurer, may give a SOC written direction if the Portfolio Minister is satisfied that because of exceptional circumstances, it is necessary to give the direction in the public interest.
 - The SOC may be reimbursed amounts not exceeding the estimated net cost of complying with such a direction, or the estimated net amount of revenue forgone through complying with such a direction.

SOC Act directions must also meet requirements set in the CSO Criteria in section 2.3 of these Guidelines to be considered a CSO.

Government departments reporting to their responsible Minister are expected to play active roles in operationalising ministerial directions. A full description of the ministerial directions can be found in the *SOC Act 1989 No 134*. As the direction powers in sections 20N, 20O and 20P involve specific statutory provisions on the terms, legal advice will assist understand how the proposed direction can be implemented.

2.5 Service Level Agreements

Mandatory

4. A CSO should be formalised through a Service Level Agreement (SLA).

Recommendation

For existing CSOs:

- government departments and government businesses ensure SLAs are aligned with these guidelines and are implemented by June 2024.
- if government departments believe they are entitled to an exemption from application of these guidelines, they should apply for an exemption by June 2024.

Guidance

SLAs improve the transparency of CSOs and provide a governance framework for delivery. CSOs should be formalised through a SLA between funding government departments and government businesses. In situations where more than one government department is funding a CSO, it might be optimal to have more than one SLA in place.

SLAs should outline:

- Intended beneficiaries/customers and tenor of CSO
- Identification of needs and expectations
- Definition of service levels
- Key Performance Indicators that measure the effectiveness of the CSO in meeting its objective
- Risk management and dispute resolution
- Determination of costs and payment terms
- Review and evaluation process.

For SOCs, SLAs must be in place for any CSOs arising from ministerial directions for accountability and transparency reasons.

Practice Guide 3 provides a checklist of terms that government departments should consider for the SLA.

2.6 Monitoring and Review

Mandatory

5. A CSO should be monitored and reviewed on an ongoing basis.

Recommendation

- Government departments plan and schedule an evaluation with government businesses of existing CSOs that have been in place for over five years by June 2024.

Guidance

A CSO should be treated like any other government expenditure and periodically reviewed and monitored to ensure objectives and KPIs set out in SLAs are being met.

Government departments should actively monitor performance against KPIs to ensure effective performance of government businesses in delivering the CSO.

In line with OECD best practice, government businesses should report material financial and non-financial information for activities that are carried out in public interest.⁴ Government businesses report all CSOs, including KPIs in their annual Statements of Intent and Business Plans. This gives Treasury visibility across government businesses of the funds provided in delivering CSOs on behalf of the State.

Evaluation Review

Like any other government expenditure, a CSO should be reviewed at the end of its funding period or periodically for an ongoing CSO. An evaluation review will allow the government business and government department to determine whether policy objectives have been met and/or whether the CSO needs to continue.

It is the responsibility of government departments to undertake the evaluation review in accordance with Government and Treasury policies.⁵ Prior to the end of a CSO's funding period, or at a pre-determined time specified in the SLA, government departments should initiate the review. Sufficient notice should be given to government businesses to ensure a comprehensive review can be undertaken.

The evaluation review should assess whether the CSO is meeting or has met its objective and if applicable, justify why the CSO activity should be maintained. The evaluation review is a mechanism for government departments to assess the CSO's continued relevance, relationship to its priorities and to ensure resources are efficiently and effectively allocated to fund the CSO.

⁴ OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015, p24

⁵ Including TPG22-22 *Policy and Guidelines: Evaluation*.

Definitions

Term	Definition
Commissioning	Commissioning is an approach to considering the outcomes that need to be achieved, and designing, implementing and managing a system to deliver these outcomes in the most effective way.
Government business	For the purpose of this policy, government businesses include SOCs, PNFCs and PFCs.
Government department	Government department or agency within the general government sector.
Net Cost	Net cost is the difference between the cost of providing the CSO and the revenues generated.
Non-contestability	Non-contestability exists where it is difficult or impossible to evaluate and benchmark services against credible alternatives due to lack of information and market depth.
PFC	Public financial corporation entity in accordance with ABS classification.
PNFC	Public non-financial corporation entity in accordance with ABS classification.
Portfolio Minister	As defined in section 20 I of the <i>SOC Act 1989 No 134</i> .
Responsible Department	Government department responsible for funding the CSO.
Responsible Minister	The Minister to whom the entity is responsible and submits its annual report.
State Outcome	It is the primary purpose for which budget funding is being expended, which clearly explains to the public the goal that a sub-national government is seeking to achieve for its citizens.
SOC	State Owned Corporation under the <i>State Owned Corporations Act 1989</i> . A SOC is a PNFC in accordance with ABS classification.

Appendix 1 – Related Government Policies

These Guidelines should be used alongside the NSW Government and Treasury policies below.

Policy or guideline	Summary
Reporting and Monitoring Policy for Government Businesses TPP18-02	Government businesses should refer to this Policy to ensure they are reporting their CSOs.
Statement of Corporate Intent (SCI) and Statement of Business Intent (SBI) Annual Guidelines	These Guidelines provide direction to government businesses on how to compile the SCI, SBI and Business Plan.
Outcome Budgeting TPP18-09	This policy explains the Outcomes Budgeting Framework, including State Outcomes and outcome indicators.
Policy and Guidelines: Evaluation TPG22-22	These Guidelines are useful when planning the evaluation process for a CSO.
NSW Government Guide to Cost-Benefit Analysis TPG23-08	Cost-benefit analysis (CBA) is a holistic appraisal method that estimates the economic, social, environmental and cultural costs and benefits of an initiative and expresses them in monetary terms.
TPP 18-06 NSW Government Business Case Guidelines	The Guidelines establish a best practice, clear and consistent approach for preparing business cases that inform effective and efficient resource allocation decisions by government.
TPP16-05 NSW Government Commissioning and Contestability Policy	This Policy sets out requirements for commissioning and contestability with a view to applying more rigour to the design and funding of services that enhance people's lives.
Submission of Business Cases TPG22-04	These Policy and Guidelines set out mandatory requirements, recommendations and guidance for NSW General Government Sector agencies and other government entities for the submission of business cases.
Annual Budget Process Guidelines	These Guidelines should be referred to when seeking additional budget funding for a new CSO (i.e. New Policy Proposal or Capital Proposal)

Appendix 2 - Roles and Responsibilities

Role	Treasurer	Portfolio Minister	Government Departments		SOCs and Government Businesses		Treasury	ERC
Initiation of CSO	I	A	A	R	C		I	
Compliance with Criteria			A	R	A	R	C	
Funding			A	R	C		R	
Approval of Funding			R		I		R	A
Implementation of CSO			R		A		I	
Service Level Agreement			A	R	A	R	I	
Performance Reporting			R		A	R	I	
Monitoring and Review			A		R		A	

R	Responsible	The entity is typically responsible for developing the deliverable or completing the activity.
A	Accountable	The accountable office/entity is typically the decision maker and is responsible for ensuring the task or activity is complete.
C	Consulted	The consulted office/entity is one from whom feedback and input should be solicited.
I	Informed	The informed office/entity is one that should be kept in the loop. This office/entity does not have to be consulted or be a part of the decision making.

Practice Guide 1: CSO Process

This practice guide sets out a step-by-step approach for government departments and government businesses to implement a CSO.

Step 1: Strategic Analysis of activity

In establishing a CSO, it is important for government departments to identify the activity's objective and how it meets the criteria below.

The Strategic Analysis is generally intended to provide a high-level indication of how the activity will be initiated, how its objective is specified in terms of alignment with State Outcomes (where applicable) and whether it likely meet the CSO criteria.

Government departments must meet the following criteria:

Initiation of a CSO (select):

- The Activity contributes to a State Outcome

Or

- The Activity is in response to SOC Act Ministerial Direction

Characteristics of a CSO (must satisfy all):

- The Activity supports a clearly defined target group, and/or resolves exceptional circumstances
- The Activity is delivered on a net cost basis
- The Activity is non-contestable

Practice Guide 2 provides guidance on activities commonly undertaken by government businesses that would not typically meet the criteria of a CSO.

Treasury Policies and other materials that could be useful in providing guidance on some components of the criteria are set out below:

Criteria	Recommended Treasury Policy or Guidance
Net Cost Basis	<i>TPP 18-06 NSW Government Business Case Guidelines</i> refer to Section 5.2.3 Financial Analysis, Step 11 a – d <i>Australian Government Productivity Commission, Community Service Obligations: Some Definitional, Costing and Funding Issues</i> refer to Section 3 - Measurement Benchmarks <i>IPART Information Paper: Pricing and Business Structure for Competitive Neutrality</i> refer to Section 1
Non-Contestability	<i>NSW Government Commissioning and Contestability Practice Guide</i> refer to Section 4.1 ⁶

⁶ TPP16-05 NSW Government Commissioning and Contestability Policy

Criteria	Recommended Treasury Policy or Guidance
Alignment of objectives with State Outcomes	<i>TPP18-09 Outcome Budgeting</i> Budget Paper: Outcomes Statement

Additional guidance on how to evaluate new proposals of government initiatives, like CSOs, can be found in *TPG22-22 Policy and Guidelines: Evaluation* – Sections 4 and 5.

An evidence-based approach should be used to identify the existence of exceptional circumstances.

It is recommended that the Strategic Analysis should be prepared by government departments in consultation with government businesses.

Step 2: Detailed evaluation

The Detailed Evaluation builds on the Strategic Analysis and is a fulsome analysis of the activity that has met all of the criteria for a proposed CSO. The nature of the Detailed Evaluation could be determined by the complexity, size, strategic significance, and risk of the proposed CSO.

Where proposed CSOs involve delivery of infrastructure assets by regulated SOCs, consideration should be given to how such CSOs might affect their Regulatory Asset Base (RAB). This may require consultation with IPART.

To assist in scoping the Detailed Evaluation, Section 3 (Evaluation Design) of *TPG22-22 Policy and Guidelines: Evaluation* and Section 2 of the *NSW Government Guide to Cost-Benefit Analysis (TPG23-08)* are useful resources.

The Detailed Evaluation should be prepared by government departments in consultation with government businesses.

A draft Service Level Agreement (SLA) and a monitoring and evaluation plan can be developed at this stage for submission to ERC (where applicable), together with the Detailed Evaluation for a funding decision in step 3.

Step 3: Funding decision

Recurrent and/or capital proposals must be included as part of the normal budget process for funding decisions of the responsible government department. Depending on the nature of the CSO, this may be subject to approval by the ERC.

Funding proposals by government departments should seek to ensure the CSO is effectively carried out without the need for any cross-subsidisations from government businesses.

Step 4: Formalising the Service Level Agreement

Government departments and government businesses should formalise CSOs by signing off SLAs after funding approval has been obtained. Signed SLAs must be in place prior to commencement of delivery of CSOs by government businesses.

Practice Guide 3 provides detailed guidance on how to formalise a SLA.

Step 5: Monitoring and evaluation

A monitoring and evaluation plan provides a framework for guiding monitoring, evaluation, reporting and improvement over the life of a CSO. The monitoring and evaluation plan should cover a CSO's inputs, processes, outputs, outcomes and benefits.

CSOs are to be:

- Regularly monitored by government departments to ensure they are being implemented and administrated as intended, and planned outputs are being delivered.

- Regularly monitored by Treasury to ensure transparency of CSO activities commissioned by the Government to be undertaken by government businesses, in particular SOCs.⁷ Government businesses are required to report KPIs for all CSOs in the annual Statements of Intent and Business Plans and in-year reporting.
- Periodically evaluated by government departments to ensure objectives and KPIs set out in SLAs are being met.

⁷ Recommendation of the Council on Competitive Neutrality OECD/LEGAL/0462

Practice Guide 2: Reviewing the CSO Criteria

Government businesses and government departments are encouraged to consult with Treasury in considering whether an activity should be a CSO.

The following activities undertaken in the normal course of operations by government businesses are not generally CSOs:

Type of activity	Why this may not be regarded as a CSO
Regulatory requirements that are part of the commercial environment in which the business operates.	Regulations imposed by the Government on a government business that are also imposed on private sector businesses operating in an industry do not give rise to CSOs. This can include legal and regulatory obligations impacting on the operations of both government and private sector businesses, for example environmental controls, industrial awards and occupational health and safety regulations.
Legislative objectives and functions under a government business' enabling legislation.	Principal objectives reflected under a government business' enabling legislation are not typically considered CSOs. CSOs which may relate to the delivery of a government businesses principal objectives should be considered on a case-by-case basis.
SOC Act legislative principal objectives and functions	SOCs should not only be successful businesses but are required to exhibit a sense of social responsibility to the communities in which they operate, exhibit regional development responsibility in the way they operate, and conduct operations in compliance with section 6 (2) of the <i>Protection of the environment administration Act 1991</i> (refer to section 20E of SOC Act). Note: the SOC Act and a SOC's enabling legislation must be considered together for a full understanding.
Corporate social responsibility activities, which are good management practice and that deliver benefits for government businesses	Activities delivered by government businesses as a result of acting as good corporate citizens are not generally considered CSOs. While the provision of such services may not generate profits, they are usually designed to achieve other objectives including bolstering a company's image, building its brand, increasing customer retention and loyalty or boosting employee morale.
Government reporting and other "head office" type requirements	The cost of complying with government reporting requirements, such as preparation of annual reports or statements of corporate intent is not regarded as a CSO.

Practice Guide 3: Service Level Agreements

A Service Level Agreement (SLA) should be put in place between government departments and government businesses.

SLAs give clarity to the delivery and funding of CSOs and provide a framework to measure performance and review priorities.

SLAs should ensure that there is alignment in understanding between government departments and government businesses of the intended objectives, what service is needed, and the costs involved.

Where CSOs involve commissioning of infrastructure, the nature and detail within the SLA will vary depending on the complexity of the project. In addition to the checklist below, other key issues to be included in such SLAs include the funding agreement and asset lifecycle management plan which addresses the infrastructure's ongoing use and maintenance. The following checklist sets out terms that government departments should consider in establishing SLAs.

Service level agreement checklist

1. Agreement overview

- Clarify the goals of the Service Level Agreement
- Decide on the time period of the agreement

2. Identify customers

- Identify the direct and indirect customers

3. Identify needs and expectations

- Have clear definitions of the issue being targeted and the objectives that are being sought
- Agree on what services will be provided

4. Define service levels

- Clearly define the service levels and the standards of service required
- Agree on critical areas of service delivery
- Agree on priority targets for improvement

5. Establish key performance indicators

- Establish KPIs to measure service performance

6. Confirm processes to identify and manage risks and issues

- Establish indicators to give early warning of problems
- Establish dispute resolution process

7. Determine costs and terms of payment

- Agree on a basis for determining costs
- Determine an appropriate cost allocation mechanism
- Agree on the frequency of invoicing and payment

8. Establish a review and evaluation process

- Establish responsibilities for reviewing and evaluating performance
- Agree on the frequency of reviews
- Agree on a program for improvements

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