

4. IMPROVING THE EFFECTIVENESS OF STATE SPENDING

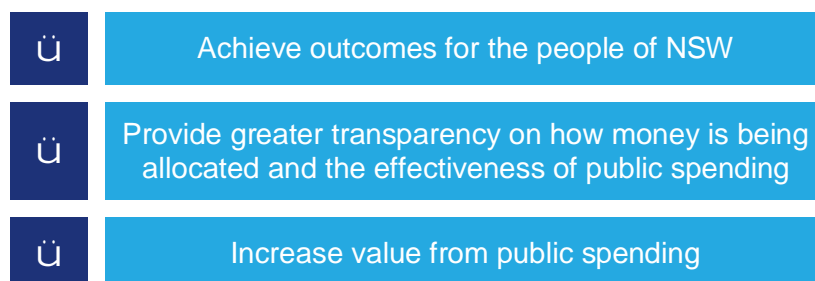
4.1 Introduction

The NSW Government is transforming the way it manages and measures its annual expenditure of \$77.2 billion on behalf of the people of New South Wales. This transformation is about delivering better outcomes for the people of New South Wales – more transparency and accountability for expenditure, and better value for money.

Traditionally, the focus of budget decision making has been on the additional programs, services and infrastructure announced in each budget. Under the Government’s Financial Management Transformation program (FMT), the focus is moving towards a more comprehensive view of total government spend – with the ability to measure and monitor the outcomes achieved for the total dollars invested.

This journey begins with the delivery of a new whole-of-government financial management system, Prime, and will be followed by new legislation to replace and modernise a thirty-year-old legislative framework. The new system and the legislation will enable the Government to move towards an outcome-budgeting approach commencing from the 2018-19 Budget, which will improve the effectiveness of total State spending and ensure that New South Wales is a great place to live, work and raise a family (see Chart 4.1).

Chart 4.1: The benefits of outcome budgeting



4.2 Moving towards budgeting decisions based on outcomes for the people of New South Wales

Shifting the focus from delivering services to achieving outcomes

The key change between the traditional budgeting approach and the new, outcome-budgeting approach, is a shift away from incremental funding of government agencies to provide services, to funding of programs that deliver specific outcomes for New South Wales citizens. Table 4.1 below outlines how this shift will work in practice.

Table 4.1: *Shifting from delivering services to achieving outcomes*

Before: Service delivery approach	After: Outcomes approach
Deliver more buses and trains	Reduce commuter time
Increase the number of doctors and nurses in emergency departments	Reduce waiting times in emergency departments
Increase the number of teachers and build new schools	Improve educational outcomes for primary and secondary students

The result of an outcome-budgeting approach is that the Government can focus on the best way to achieve outcomes for the people of New South Wales, which could mean a different mix of services and agency input. This approach puts the needs of the people at the centre of investment decision making.

Table 4.2 below highlights how the budget process will change under an outcome budgeting approach.

Table 4.2: *How the budget process will change*

Traditional service delivery approach	Outcomes approach
Agency focus: Resource allocation planning and decisions centred around agencies, limiting cross sector and whole-of-government perspectives.	Outcome focus: Resource allocation planning and decisions to be centred around achieving outcomes, encouraging cross cluster collaboration and a whole-of-government perspective.
Financially driven decisions: Budget information focused more on financials, with performance information, where available, providing input and output measures but not routinely incorporated in decision making.	Performance informed decisions: Budget information will endeavour to routinely link financial and performance aspects, covering inputs, outputs, efficiency, effectiveness and equity, where available, driving a performance-informed decision making culture.
Service provider perspective: The total budget spend is not clearly linked to outcomes and is often expressed as services delivered to the people rather than outcomes achieved.	Citizen perspective: Every budget spend will be linked to outcomes. Budgets will clearly articulate outcomes to be achieved for the people of New South Wales.
Ad hoc reviews: Reviews of public spending carried out as and when necessary to assess the Budget spend.	Systemic reviews: Reviews will be more systemic and integrated with the budget process to inform funding decisions, and ensure continued value for money of public spending.

Transitioning to outcome budgeting

Changing the way the Government makes budget decisions is a fundamental reform. To ensure the reform's success, the Government is transitioning towards outcome-budgeting over a number of years.

In this Budget, we are delivering the foundation for outcome-budgeting. As part of the 2017-18 Budget process, agencies in the public sector have reported their financial information in our new financial management system, Prime. For the first time, this financial data has been systematically built around programs that agencies provide to the community. In *Budget Paper No.3 Budget Estimates*, these programs are presented in Program Groups that represent the total service packages provided to the community. Each Cluster within the NSW Government will have a number of Program Groups. A key element of this design is that multiple agencies within a Cluster can contribute programs to a program group, ensuring the focus is on what government is trying to achieve for citizens.

As part of the 2018-19 Budget, we will build on this model by clearly identifying the outcomes into which the Government is investing, and ensuring that there are robust measures to track performance against these outcomes.

This is a significant change for the NSW Government, and represents a long-term transformation of decision making processes - moving away from reviewing incremental funding to whole-of-government budget funding, and changes to operations and practices in the sector. This will shift the public sector towards managing resources to improve outcomes and leverage the massive spending power of the entire \$77.2 billion State budget.

Building on evidence and experience to create a world class budgeting model

The outcome budgeting model builds on our own experience in commissioning outcomes, international evidence and experience moving towards performance budgeting from countries such as Canada, UK, New Zealand, USA, and the Commonwealth Government. The proposed model will not only change policy and processes in the NSW Government, but will also transform the practices of the public sector to deliver more tangible and meaningful results to the public.

This program-based and outcome focused budgeting approach will encourage public sector agencies to coordinate and collaborate with each other so that resources are optimally pooled to serve the needs of communities. This will allow for targeted programs to meet the needs of specific communities or cohorts of people, when such tailored approaches can deliver better outcomes. A focus on outcomes also facilitates non-government service providers, as government makes decisions about how services are provided based on what is best for customer outcomes, not who provides the service.

The NSW Government has benefited from cross cluster approaches and has experience in engaging non-government providers on outcome contracts. For example:

- Out of home care (OOHC) recommissioning - providing children and young people with safe and permanent outcomes to reach their potential is the driving force behind the work of FACS and the agencies that provide out-of-home care services. OOHC recommissioning, currently underway, represents a move towards to outcomes based contracting;
- Office of Social Impact Investing - has piloted commissioning of outcomes in areas such as child protection, recidivism and mental health.

The proposed transformation seeks to encourage these practices across the total NSW public sector and will complement the Government's Commissioning and Contestability Policy, where applicable and beneficial to the public.

4.3 Better information for decision making

Currently budget information is organised around the agencies in the NSW public sector. From the 2018-19 Budget onwards, the Government will commence capturing more information on outcome and program performance in addition to regular agency financial information. As described above, this financial and performance information will be reorganised, structuring it around outcomes for the people of New South Wales. This will assist the Government to make better and more informed resource allocation decisions.

This will also lead to more meaningful information being available to the public to show performance of programs and to track progress towards outcomes. The aim is to promote greater transparency on how tax-payer dollars are being spent by the Government. These initiatives will build on the existing performance information, and will gradually expand to include more detailed and granular information so that the public can better evaluate government performance.

We envisage that financial and performance information will evolve and improve over time as the needs of the people and the demand for government services changes and as information becomes more sophisticated.

Investing in systems to provide better information

In order to deliver on these reforms, the Government has made a substantial investment in a new financial system. This Budget is the first Budget to be delivered in Prime, which will be a world class whole-of-government IT platform.

This is the first time in New South Wales where both financial and performance information is readily available in one central IT platform for all the agencies in the NSW public sector. This will provide the government with integrated financial and performance information, supported by detailed analytics.

The functions of Prime include:

- prioritisation and planning tools which drive whole-of-government collaborative programs
- outcome and program-based information and risk reporting
- periodic reporting and monitoring of performance metrics
- consolidating and reporting financial and performance information by outcomes, sectors and identified priorities.

4.4 Improved value from public spending

The Government is constantly looking at ways to improve the value for money from taxpayer dollars and as part of transforming financial management is introducing practices in the sector to achieve this.

Overall spending to be periodically reviewed

In order to identify areas for continual improvement, the effectiveness of the Government's investment into outcomes will be supported by ongoing strategic reviews and evaluations that focus on the entire stock of spending, rather than incremental changes in spending.

These reviews will be designed to assess whether services and outputs are:

- appropriately designed and properly targeted to meet the needs of New South Wales communities across New South Wales
- relevant and effective in achieving the desired outcomes
- delivered efficiently and effectively.

The introduction of strategic reviews and improvements to the existing performance and program review and evaluation practices will significantly enhance the capability of, and information available to, the Government. The results of these reviews will inform resource allocation decisions and will enable the Government to vary funding levels for different programs, as necessary to deliver improved outcomes. The Government has also announced its commitment to a comprehensive review of government spending (see Box 4.1)

Box 4.1: Making government expenditure count

The move to outcomes budgeting will provide greater transparency to both the Government and the public in relation to ongoing funding (and expenditure) by government agencies, enabling the Government to better ensure that expenditure is achieving real outcomes for the benefit the people of New South Wales.

With better information available about the outcomes government expenditure achieves, Treasury will be able to use the new budgeting system to comprehensively review expenditure to ensure it is achieving the outcomes intended.

This enhanced capacity to review expenditure will complement the Government's ongoing efforts to invest in priority services while getting the back office in order and making government more efficient.

4.5 Paving the way for a new budget process

The 2017-18 Budget delivered in Prime is a significant and strategic step that positions New South Wales to commence outcome budgeting in 2018-19. The Government is committed to building the capability and systems to embed the transformation.

In the 2018-19 Budget all program groups will begin to be restructured to align with outcomes, for the total budget spend. It will also include performance indicators tracking each outcome.

As a result, the budget will more clearly link spending with the outcomes the Government is seeking to achieve for the people of New South Wales.