

RESOURCE ALLOCATION DECISION MAKING IN THE NEW SOUTH WALES CONTEXT

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ABSTRACT

Throughout the world there are many different models of resource allocation decision making in existence. In the Australian State of New South Wales, the resource allocation decision making approach follows New Public Management models and frameworks. In New South Wales, the allocation of resources to government agencies is the responsibility of central government agencies such as the New South Wales Treasury and Department of Premier and Cabinet. Central government agencies adopt processes to allocate resources based on the results and services offered by a particular government department, through the budget process. Key to budget decision making processes is the New South Wales State Plan, and two crucial corporate documents, the Results and Services Plan, and the Total Asset Management Plan.

This paper will explain the approach and the processes of resource allocation decision making in New South Wales. Further, it will explore the application of the approach as a means of managing a Roads administration in a strategic manner, driving performance measurement, increasing corporate accountability, and improving corporate governance; regardless of whether a change of resources from central sources can be reasonably expected to result from compliance with the central approach to resource allocation decision making.

A case study has been attached that details the practical application of resource allocation decision making and its affects on internal organisational performance.

1. INTRODUCTION

Resource allocation decision making in the Australian State of New South Wales works within, and contributes to, a broad context of policy and processes that support government priorities. Resource allocation decision making requires the optimum allocation of government resources across the whole range of programs and sub-programs to support government priorities and objectives. It also occurs at different levels; from central agencies like Treasury to government departments or agency's that then in turn make decisions within the agency about specific programs and projects.

High level inter-agency collaboration is essential and key to fulfilling the objectives of the New South Wales Government, as well as fulfilling the objectives of individual government

agencies. Within New South Wales a strong collaborative relationship and dialogue with central agencies such as the Department of Premier and Cabinet and the Department of Treasury is of particular importance.

In order to gain the best possible community outcomes from government investment, an agency needs to ensure that it provides sound advice to the government on the allocation of these funds in an effective, efficient and equitable way to the various component programs that make up the overall agency works program.

The resource allocation approach ensures that the planning processes in place throughout the agency allocates funds to specific services, programs and projects that support the agency's corporate focus, and that support and achieve government results and objectives.

The New South Wales State Plan is the prime strategic plan that the Department of Premier and Cabinet use to prioritise the resource allocation decision making of the Cabinet¹.

The New South Wales State Plan sets the Government's vision and strategic priorities to 2016 and provides agencies, such as the Roads and Traffic Authority (RTA) and Transport department, with goals and priorities to focus agencies attention and report delivery against. The State Plan is the major driving force behind New South Wales Government agencies operations and activities and provides a clear, overarching direction for each government agency.

The State Plan was launched in November 2006 after extensive community consultation and was recently revised in March 2010. The revised State Plan responded to evolving community priorities, with changes made to strengthen targets, update priorities and drive local delivery. Eight chapters are contained in the State Plan that set goals, priorities and targets for monitoring performance. The plan is revised with a ten year planning horizon after each election cycle.

2. THE THEORY - NEW PUBLIC MANAGEMENT

Resource allocation decision making as a concept stems from the management philosophy known as New Public Management (NPM). The emergence of NPM ideas in the 1980s signified a shift from process oriented public administration to outcome oriented administration, replacing traditional public management practice - based on rules and managed by process, to practices based on management through the provision of a strategic and results oriented approach to decision making (Hood, 1991).

Administrators within the public sector have become cost-conscious in their decision making. This has led to an increased emphasis on value for money within government, or in other words, administrators needing to deliver more or improved services, with less or finite resources (Kemadrin & Mierlo, 1998).

¹ The Cabinet is a collection of Ministers that together form a committee that heads the Executive and is the paramount authority in government. The Cabinet itself is the apex of executive government. Meeting regularly, it sets the broad directions of government, takes the most important decisions facing a government and resolves potential conflicts within government.

For administrators, the NPM concept provides a set of tools allowing for the transformation and improvement of the dialogue between an agency and central agencies such as Treasury or Finance departments. Additionally, it provides a mechanism to improve the internal workings of a government agency, leading to a more flexible, results oriented and cost effective approach. This in turn informs the resource allocation process by mandating or requiring strategic planning, increased corporate accountability, and improved governance as a means of driving strategic thinking and alignment within government.

On the above basis, NPM is a management approach considered to be of particular relevance to public sector agencies. The concept has become increasingly dominant within the Australian public sector at both state and federal levels over the last two decades, and is an underpinning principle of government agencies within Australia and New South Wales (Armstrong, 1998). This is evidenced by the New South Wales Governments approach to resource allocation decision making, which follows NPM models and frameworks.

The New South Wales system also uses intervention logic to determine the policy levers it can employ to deliver the outcomes it is seeking. Intervention logic can be described in terms of a 'theory-of-action,' i.e. a set of assumptions and inferences about cause-and-effect that add up to a theory of 'how to produce a desired result'. It is a systematic and reasoned description of the casual links between a department's activities, outputs, and intermediate and end outcomes. The main purpose of intervention logic is to select major policy interventions that are more likely to be effective, and identify the key results that can be monitored to show interventions work.

"Intervention logic offers policy advisers a structured approach to critical thinking rather than a formula-driven decision tool. Whereas decision-based methods tell the advisor to recommend the option with the highest score on the top-weighted criterion or the highest benefit/cost ratio, intervention logic does not produce any recommendation at all. Instead, intervention logic helps the analyst build and communicate an appreciation of the policy's key features – facts, values, assumptions, mechanisms of intended cause and effect, and likely feedback effects (Baehler, 2003)."

3. RESOURCE ALLOCATION IN NEW SOUTH WALES (NSW)

The basic budgeting problem for government and in turn government departments can be best summed up as; faced with limited resources, on what basis should it be decided to allocate X amount of money to activity A instead of activity B (Key, 1940). This challenge articulated by Key in the 1940s, is still relevant to government and government departments.

Within the New South Wales public sector there is a strong emphasis and long held belief that the efficient use of resources affects the delivery of services to, and the welfare of, the people of New South Wales. Increasing service delivery needs within New South Wales must be balanced against limited government resources. As a consequence, the New South Wales public sector must ensure related resource allocations are well timed, offer value for money, provide sound management of risks and are consistent with government priorities and objectives (NSW Treasury, 2008).

Resources within New South Wales are allocated through a decision making process involving diverse institutions, the focus of this paper will be the relationship between Roads

and Transport and the Department of Treasury and the Department of Premier and Cabinet. Each institution hold and represent certain interests. The interactions between these institutions are crucial in determining resource allocation outcomes (Fozzard, 2001).

3.1. The New South Wales Budget Process

Budget dependent agencies in New South Wales, such as the Department of Transport and the Roads and Traffic Authority, provide a broad array of public services and plan for both public and private transport, including road, rail, buses, taxis, ferries, light rail, cycling, walking, community transport services, regional air services and freight movement. New South Wales Treasury advises the Government on the efficient allocation of resources to such services and monitors the funding of these services. Each agency distributes the allocated funds to different units and programs within the agency or outside the agency through grants, in accordance with the Minister's, and consequently the Government's, priorities.

The existing method of resource allocation across Budget dependent agencies is largely a top down approach. In October of each year, the Treasurer provides an initial funding figure for the following financial year (in Australia 1 July to 30 June) to each agency and Portfolio Ministers are invited to submit proposals for recurrent and capital funding allocations for their agencies. The recurrent expenditure proposal may include disputed amounts for maintaining existing programs, works in progress and additional funding enhancements. Requests for capital funds are for existing and new projects and projected over a 4 year forward estimate period.

During the budget process, the Government considers the funding proposals for all agencies and allocates the available resources to the Budget dependent agencies in consultation with the Minister of the agency and the Treasury.

If total requests are more than available resources, which is usually the case, the Government may impose across the board cuts, request selected agencies to finance their services through internal savings, and/or reduce the services provided. At the end of the budget process, the funds allocated to each agency and each program for the given budget year are published in the Budget Papers.

Throughout the budget process, a high level dialogue or negotiation is undertaken between the agency and the Treasury, as a means of adequately making resource allocation decisions that will lead to the achievement of government objectives and priorities.

Key to the dialogue between NSW Government agencies is the New South Wales Government State Plan, and two agency corporate documents, the Results and Services Plan (RSP), and the Total Asset Management (TAM) Plan. Treasury request the agency to provide information through the RSP and TAM process about the key risks, regulatory and organisational constraints and human capital capability issues that may impact delivery of the results the government wants.

Treasury use performance measurement as a key input in its decision making, as it seeks to rely on empirical evidence to make its resource allocation decisions. Treasury drives the use of key performance indicators, trend and performance projections over the budget period (next financial year plus 4 year forward estimates) and the ten year planning cycle of the State Plan. The use of key performance measures is applied to all agencies within

NSW, so all agencies are required to provide empirical evidence and measures to validate their policy intervention and the services they deliver. In roads and transport agencies the nature of the work and the engineering profession lends itself more to a performance measurement process. However, this does not mean that a performance culture follows.

3.2. Results and Services Plan

The Results and Services Plan (RSP) is a strategic medium term service delivery and funding plan that links an agencies funding with the achievement of government priorities. The RSP provides a clear line of sight for performance management by setting out the linkages between State Plan and other agency priorities, the results that the agency is working towards, the services it delivers to contribute to those results, and the costs of delivering those services. It should describe the intervention logic of the key programs and activities of the agency to deliver the outcomes it is accountable for. This assists in developing a corporate framework that gives a comprehensive view of what the agency is focusing on delivering – an example of the RTA corporate framework is at attachment A.

The NSW Treasury make use of the RSP as a framework within an agency's overall budget, forming part of the dialogue between agencies and the Treasury. The RSP is used by Treasury to clarify how an agency's services contribute to State Plan and other government priorities; to monitor agency performance in providing services and contributing to desired results; to assess the costs of providing services and comparing actual expenses with the expenses budgeted for; and as a means of identifying any gaps or duplication in agency service delivery strategies.

Agencies in turn utilise the RSP to link internal agency corporate and business planning, budgeting processes and key performance indicators with the high-level results the government seeks to achieve.

3.3. Total Asset Management approach

Total Asset Management (TAM) is a strategic approach to physical asset planning and management, whereby an agency can align its ten-year asset planning with its service delivery priorities and strategies, within the limits of resources available. TAM policy requires agencies to undertake planning of their non-current physical assets as part of their corporate planning, develop and maintain updated asset plans, and provide copies of these to New South Wales Treasury as required.

The premise of the approach is that physical assets exist to provide a service. Asset performance should be aligned with, and respond to the current and future service needs of customers. Customer service needs are expressed at a high level in the Corporate Framework as service outcomes. These needs establish performance-based specifications for the transport products and services provided by our assets.

Agencies are required to make a TAM submission to Treasury on an annual basis as part of the Budget process and it represents the capital budget proposal submission to Treasury. The asset strategies are informed by a number of subordinate plans including the Capital Investment Strategic Plan and a Strategic Asset Management Plan dealing with major roads development and maintenance; but it also deals with many other assets that help deliver services like office accommodation, information technology and heritage asset policies.

4. RESOURCE ALLOCATION DECISION MAKING AS A MEANS OF DRIVING INTERNAL STRATEGIC THINKING

As well as informing the dialogue with central government agencies, resource allocation decision making plays a frontline role in the corporate, strategic and planning direction of an agency and should drive both the executive and organisational performance management process. This aims to ensure the alignment between investment and people to the vision of the agency.

The RSP and the TAM are tools that not only inform the conversation between an agency and a central government funding agency such as the Treasury, but they monitor performance and drive strategic decision making within the agency, leading to improved organisational performance.

Resource allocation decision making serves the needs of the executive and the agency by providing information and advice on how business areas within the agency are performing. This includes ensuring that plans and performance reports are aligned with the agency's corporate frameworks, government objectives and directions.

The experience of the RTA and Transport is that the application of New Public Management approaches and resource allocation decision making through intervention logic requires a discipline that can benefit the organisation. The discipline is for all staff to consider very complex businesses like Roads and Transport in terms of the benefits it delivers to the people of NSW. To then map the business processes and systems they manage in the context of achieving broad community results increases the strategic focus of all staff.

The development of a single page corporate framework that was distributed to all staff and listed the community results, business results and intermediate results helped in communicating the corporate objectives of the organisation. This framework was then used as the basis for corporate planning, business planning, performance management and executive governance. See attachment A for an example from the RTA.







The intervention logic assists in aligning planning within an organisation. Conducting business mapping and asking individuals to show how they contribute to the organisation and government objectives is very powerful in terms of engagement and increasing accountability. This process together with a culture that required business planning and individual workforce development plans meant that there was a suite of plans that were aligned and integrated.

The drive to measure performance empirically through metrics and measures that are linked to the services we deliver and the outcomes we are seeking changes the focus of the organisation. Transport and road agencies are very good at measuring bits of information, but looking to how that information delivers results is a significant shift. Improving the organisations capability and processes for risk management was also seen as a benefit from the budget process.

A practical case study that will be used to illustrate the process at the World Road Congress can be seen at attachment B.

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NSW STATE PLAN PRIORITIES	Better transport and liveable cities												
TRANSPORT NSW VISION	A transport system that maximises benefits for the community and the economy												
RTA VISION	A safe, sustainable and efficient road transport system												
TRANSPORT NSW COMMUNITY RESULTS	Travel The movement of people and goods is efficient and reliable			Accessibility The availability of transport options are aligned to the needs of the community and the economy			Asset Transport infrastructure meets appropriate standards			Safety Transport in NSW is safe		Environment The impact of transport on the environmental is minimised	
RTA COMMUNITY RESULTS	 Transport The road transport system supports reliable and efficient movement of people and goods			 Asset The condition and value of the road network meets acceptable standards			 Safety The safety of the road environment, vehicles and road user behaviour is maximised			 Environment Impacts on the natural, cultural and built environments are minimised			
RTA INTERMEDIATE RESULTS	Development Network development meets future growth, population and freight needs	Alternatives Alternative forms of transport are supported	Traffic People and freight movement and incident management are optimised	Access Heavy vehicle access to the road network is sustainable	Maintenance The road network has been maintained to the required condition and value	Roads The safety of the road environment is maximised	Vehicles The safety of the vehicles is maximised	Users The safety of road user behaviour is maximised	Infrastructure The impact of roadworks on the environment is minimised and positive urban design outcomes produced	Organisational Use less resources, reduce waste and reduce our footprint	Emissions Contribute to a reduction in vehicle emissions		
NSW STATE PLAN PRIORITIES	Better transport and liveable cities												
VALUES	Integrity			Accountability			Responsiveness			Teamwork		Safety	
TRANSPORT NSW BUSINESS RESULTS	The community, partners and stakeholders are consulted and informed about transport issues						<ul style="list-style-type: none"> Effective governance is in place to deliver our results and services Value for money is delivered across an integrated budget Occupational Health and Safety is strengthened Workforce commitment and capacity is supported and developed 						
RTA BUSINESS RESULTS	 Services Meeting community needs						 Governance Aligning our investment and people to our vision						
RTA INTERMEDIATE RESULTS	Customers High quality service delivery, data integrity, identity management and accessibility			Stakeholders Effective consultation, communication, partnerships and leadership in policy			Financial Advanced business opportunities, accountability and financial performance		Organisational High quality planning and risk management, performance management, systems and reporting frameworks		Our People Delivering a high performance culture, workforce capability, diversity and equity and OHS		

Resource allocation decision making in the New South Wales context

A case study - Practical application of how resource allocation decision making impacts on how an organisation performs

The theory around the resource allocation decision making process within NSW is that agencies will develop key strategic documents (the Corporate Plan, Results and Services Plan and Total Asset Management approach) to advise the centre of government of what they can do to deliver on the government's objectives and priorities as expressed in the State Plan. These documents set the strategic direction for the organisation as well as inform the budget allocation decision making process of central agencies.

These documents include evidence based policy decisions, performance information that shows how marginal resource allocation will impact on the results or services being delivered. They also cover key management issues like the business risk management approach, regulatory constraints and human capacity profiles that government can use to make objective decisions about policy intervention. The theory holds that once this information is considered and the budget decisions are made the agencies should be able to deliver all that was committed in their planning. If there is any reduction in budget then a corresponding reduction in services would be understood and expected.

The reality of the situation is very different and understandably so. Historically resources have been allocated to agencies each year with a small increase based on growing costs to deliver government services or a decrease that needs to be made up through efficiency savings. Significant changes will only occur where a major policy shift is decided on, or through a major restructure of government policy or departments; and this cycle continues (centralisation versus decentralisation, amalgamation versus disaggregation). It is still true that legacy programs that currently exist are rarely ceased even if the priorities of government change significantly.

Agencies that work very hard on developing and producing the most compliant and comprehensive documentation and management information to inform the resource allocation decision making processes in NSW don't necessarily succeed in winning additional budget allocations. The experience of the NSW RTA in submitting comprehensive plans over several years that highlighted the need for additional funds in certain programs did not result in many marginal allocations from the central budget process. Some specific programs of works did receive funding, like bus priority infrastructure, but it was clear that the process was not resulting in practical resource allocation decision making. The example we will look at is the road maintenance program.

Historically the maintenance area was not very sophisticated in being able to establish a link between what, and why, it did what it did. Decision making in the past had been regionally decentralised and the pool of resources for a region spent on whatever the engineering experts thought was most important or pressing. Looking for the empirical evidence needed to support resource allocation decision making led to better decisions being made about the operation of the program. Factors that the maintenance engineers would now consider linking to their work included; the whole of life costs of the asset; increasing service quality through road conditions; reducing risk to road safety through maintenance that enhances the network and any other information that supported the

corporate results of the organisation rather than a focus on maintenance engineering solutions.

The RTA did not receive additional budget for its road maintenance program from the central resource allocation decision making or budget process. This was even though the key high level strategic plan for the State – the NSW State Plan had identified road condition as a key priority for the government. This priority was included in the plan as a direct result of the community consultation process used to develop the plan. It was not in the draft put out for comment but after community meetings and consultation the government realised it was a key issue, particularly in regional areas.

The development of the business case and evidence base to put the risks associated with under funding maintenance allowed the RTA to re-allocate its own resources. The first steps were to allocate additional funding to the maintenance program with increases over the following years. This demonstrated to Treasury that the RTA was trying to address the problem itself and not relying on the budget process alone. The message within the RTA executive was also clear; maintenance is a significant issue and internal savings would go to the maintenance program.

Both internally and externally a clear strategic direction was being established. The fact that Treasury did not increase the allocation to maintenance did not mean that the process had failed. The strategic focus, an increased evidence base and closer monitoring led to increased accountability to translate the additional funding to quantifiable benefits. The governance responsibility of the executive was also clear and the organisation focused more on the process of making these types of decisions; rather than just a compliance exercise of preparing documentation for a central funding organisation that may or may not respond to the bids of transport and roads agencies.

Figure 1 represents the internal reallocation of funds to the road maintenance program over a four year period.

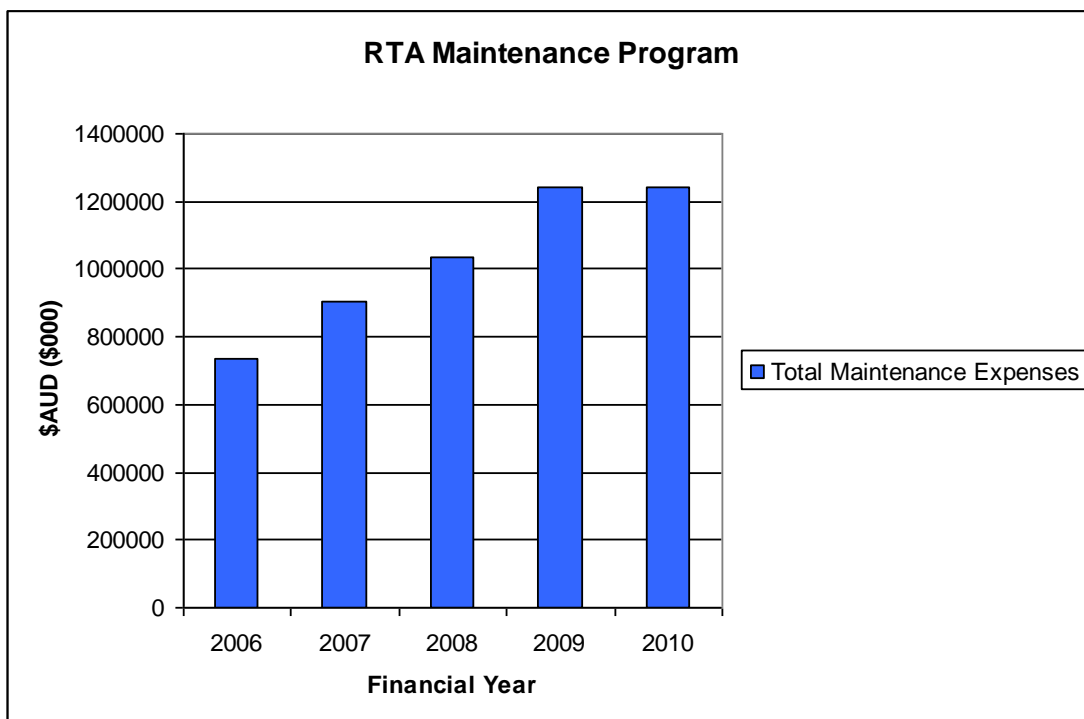


Figure 1 – RTA Maintenance Program

In the review of the State Plan in 2009 the condition of the road network, as measured by national standards, became a specific measure for the transport portfolio. The document reflected the community consultation, the government's commitment and also supported the RTA process of internal reallocation. The State Plan says that the government will continue to keep annual maintenance funding at more than AUS\$1 billion. The RTA can also use this commitment and the challenging target that 93% of the road network be rated good or very good as a means to engage in a dialogue with central funding bodies about how resources are allocated.