



PERFORMANCE AUDIT

17 DECEMBER 2021

Machinery of government changes

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.



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In accordance with section 38E of the *Government Sector Audit Act 1983*, I present a report titled '**Machinery of government changes**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford
Auditor-General for New South Wales
17 December 2021

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Section one

Machinery of government
changes

Executive summary

The term 'machinery of government' refers to the way government functions and responsibilities are allocated and structured across government departments and agencies. A machinery of government change is the reorganisation of these structures. This can involve establishing, merging or abolishing departments and agencies and transferring functions and responsibilities from one department or agency to another.

The decision to make machinery of government changes is made by the Premier. These changes may be made for a range of reasons, including to support the policy and/or political objectives of the government of the day. Machinery of government changes are formally set out in Administrative Arrangements Orders, which are prepared by the Department of Premier and Cabinet, as instructed by the Premier, and issued as legislative instruments under the *Constitution Act 1902*.

The heads of agencies subject to machinery of government changes are responsible for implementing them. For more complex changes, central agencies are also involved in providing guidance and monitoring progress.

The NSW Government announced major machinery of government changes after the 2019 state government election. These changes took place between April and June 2019 and involved abolishing five departments (Industry; Planning and Environment; Family and Community Services; Justice; and Finance, Services and Innovation) and creating three new departments (Planning, Industry and Environment; Communities and Justice; and Customer Service). This also resulted in changes to the 'clusters' associated with departments. The NSW Government uses clusters to group certain agencies and entities with related departments for administrative and financial management. Clusters do not have legal status. Most other departments that were not abolished had some functions added or removed as a part of these machinery of government changes. For example, the functions relating to regional policy and service delivery in the Department of Premier and Cabinet were moved to the new Department of Planning, Industry and Environment.

Our [Report on State Finances 2019](#), tabled in October 2019, outlined these changes and identified several issues that can arise from machinery of government changes if risks are not identified early and properly managed. These include: challenges measuring the costs and benefits of machinery of government changes; disruption to services due to unclear roles and responsibilities; and disruption to control environments due to staff, system and process changes.

In April 2020, the Department of Regional NSW was created in a separate machinery of government change. This involved moving functions and agencies related to regional policy and service delivery from the Department of Planning, Industry and Environment into a standalone department.

This audit assessed how effectively the Department of Planning, Industry and Environment (DPIE) and the Department of Regional NSW (DRNSW) managed their 2019 and 2020 machinery of government changes, respectively. It also considered the role of the Department of Premier and Cabinet and NSW Treasury in overseeing machinery of government changes. The audit investigated whether:

- DPIE and DRNSW have integrated new responsibilities and functions in an effective and timely manner
- DPIE and DRNSW can demonstrate the costs of the machinery of government changes
- The machinery of government changes have achieved or are achieving intended outcomes and benefits.

Conclusion

It is unclear whether the benefits of the machinery of government changes that created the Department of Planning, Industry and Environment (DPIE) and the Department of Regional NSW (DRNSW) outweigh the costs. The anticipated benefits of the changes were not articulated in sufficient detail and the achievement of directly attributable benefits has not been monitored. The costs of the changes were not tracked or reported. The benefits and costs of the machinery of government changes were not tracked because the Department of Premier and Cabinet (DPC) and NSW Treasury did not require departments to collect or report this information. The implementation of the machinery of government changes was completed within the set timeframes, and operations for the new departments commenced as scheduled. This was achieved despite short timelines and no additional budget allocation for the implementation of the changes.

The rationale for establishing DPIE was not documented at the time of the 2019 machinery of government changes and the anticipated benefits of the change were not defined by the government or the Department. For DRNSW, the government's stated purpose was to provide better representation and support for regional areas, but no prior analysis was conducted to quantify any problems or set targets for improvement. Both departments reported some anecdotal benefits linked to the machinery of government changes. However, improvements in these areas are difficult to attribute because neither department set specific measures or targets to align with these intended benefits. Since the machinery of government changes were completed, limited data has been gathered to allow comparisons of performance before and after the changes.

DPC and NSW Treasury advised that they did not define the purpose and benefits of the machinery of government changes, or request affected departments to do so, because these were decisions of the government and the role of the public service was to implement the decisions.

We have attempted to quantify some of the costs of the DPIE and DRNSW changes based on the information the audited agencies could provide. This information does not capture the full costs of the changes because some costs, such as the impact of disruption on staff, are very difficult to quantify, and the costs of ICT separation and integration work may continue for several more years. Noting these limitations, we estimate the initial costs of these machinery of government changes are at least \$23.7 million for DPIE and \$4.0 million for DRNSW. For DPIE, this is predominantly made up of ICT costs and redundancy payments made around the time of the machinery of government change. For DRNSW it includes ICT costs and an increase in senior executive costs for a standalone department, which we estimate is an ongoing cost of at least \$1.9 million per year.

For the DPIE machinery of government change, there were risks associated with placing functions and agencies that represent potentially competing policy interests within the same 'cluster', such as environment protection and industry. We did not see evidence of plans to manage these issues being considered by DPIE as a part of the machinery of government change process.

The efficiency of machinery of government changes could be improved in several ways. This includes providing additional standardised guidance on the allocation of corporate functions and resources when agencies are being merged or separated, and consolidating guidance on defining, measuring and monitoring the benefits and costs of machinery of government changes.

1. Key findings

The rationale for establishing DPIE was not documented and the anticipated benefits were not defined

The specific reasons for the DPIE machinery of government change were not articulated or documented by the former Premier, Ministers or central agencies at the time the change was announced. Nor were any specific desired benefits of the change set out at this time. DPC advised that the 2019 machinery of government changes were included on Secretaries Board meeting agendas, but the minutes did not record the details of these discussions or any agreed actions.

DPIE subsequently developed policy priorities and desired outcomes for the department, which included improving the integration and coordination of planning, environment and industry functions in the NSW Government. This also included the goal of reducing conflicts between competing policy areas such as industry and environmental protection. However, DPIE cannot demonstrate whether any improvements in these areas are directly attributable to the machinery of government change. Since completing the machinery of government change, DPIE has not conducted a structured evaluation of the changes.

The process of establishing a new department involves significant cost, risks and disruption, so it is important to be able to show that the changes made are linked to tangible benefits. DPC and NSW Treasury do not require departments to track or report on the achievement of the benefits of machinery of government changes. DPC and NSW Treasury advised that they did not define the rationale or anticipated benefits of machinery of government changes because the changes are made at the request of the Premier and the reasoning behind the changes is a matter for the Premier, not the departments implementing them. DPC and NSW Treasury also stated that the purpose of some machinery of government changes may include policy or political benefits for the government, which agencies could not articulate or monitor.

We acknowledge that the reasons for making machinery of government changes, and the desired benefits of the changes, are decided by the Premier. However, the public service's role includes ensuring that there is accountability for the use of public funds. In the case of machinery of government changes, this should include tracking and reporting on the benefits and costs of these activities to enable appropriate transparency and accountability.

The direct cost of the DPIE machinery of government change is likely to be at least \$23.7 million

The machinery of government change creating DPIE was large and complex. It involved costs in areas including ICT changes, redundancies, consultant fees and corporate staff time. DPIE records indicate that it spent \$7.7 million on ICT changes required because of the machinery of government change. This included the cost of transferring staff from Google to Microsoft systems, and fees for setting up new DPIE email addresses for staff. DPIE reported \$15.5 million in redundancy payments that were made around the time of the machinery of government change. Our estimate of the cost of the DPIE machinery of government change does not account for any savings arising from these redundancies. While NSW Treasury coordinated some reporting relating to executive staff reductions, the potential longer-term savings arising from the DPIE changes were not tracked or recorded. We note that the number of senior executives at DPIE subsequently increased by 35 full-time equivalent staff in the year after the machinery of government change. Other estimated costs included reported corporate staff time of almost \$300,000 and paid consultant fees of around \$170,000 for organisational design work. DPIE did not track any additional costs relating to property or branding and communication work associated with the machinery of government change.

There were a range of other additional indirect costs associated with the DPIE machinery of government change, including potential loss of productivity associated with ICT changes, reduction in staff morale, and diversion of staff from other tasks. However, the costs of these are difficult to quantify and DPC and NSW Treasury did not require departments to record or report on these.

Placing regulation, policy and delivery functions within the DPIE 'cluster' created some risks that were not clearly acknowledged or addressed during the machinery of government change

DPIE is a large and complex department that includes many associated agencies and entities that have independent or 'arms-length' regulatory and advisory roles. There were potential risks to governance and decision-making associated with placing regulatory and delivery agencies within the DPIE 'cluster'. Internalising potential conflicts between these agencies within a single department creates a risk that stated government commitments or priorities may override the statutory objectives of regulatory bodies or independent agencies. We did not see evidence of plans to manage these issues being considered by DPIE as a part of the machinery of government change process.

Some functions and resources associated with waste policy and programs were moved from the Environment Protection Authority (EPA) to a division within DPIE as a part of the machinery of government change in July 2019. The EPA is an independent statutory authority that has specified statutory functions and responsibilities relating to environmental protection and waste management, and reports to a Board. After the staff transfer was completed, the Board raised concerns that this would reduce the EPA's ability to fulfil its statutory functions and the Board's ability to provide oversight of these functions. The functions and resources, which included 68 staff, were transferred back to the EPA in July 2020, requiring additional work to undo the previous transfers.

The broad purpose of establishing DRNSW was set out, but there was no clear articulation of the specific problems that creating DRNSW would address

The stated goal of the creation of DRNSW was to improve coordination and support for communities, businesses and farmers in regional areas and to improve the representation of regional issues in government. This was specifically linked to a recent series of events including drought, bushfires, floods, and the COVID-19 pandemic, which had impacted some regional areas disproportionately. However, there was no quantification of any gaps in the representation or coordination of regional issues before or after the DRNSW machinery of government change was made. Nor were any targets set for making improvements in these areas. This means there was no clear definition of the problem that the creation of DRNSW was intended to address.

The absence of baseline information on the NSW Government's performance in these areas makes it difficult to attribute any changes in performance to the establishment of DRNSW. The department has developed a range of outcome measures as a part of its outcome budgeting reporting, but this is constrained by the fact that DRNSW does not have data on past performance in most areas and lacks current data in some. DRNSW has not conducted a post-project review to assess progress in achieving the benefits of the machinery of government changes.

The direct cost of the DRNSW machinery of government change is likely to be at least \$4.0 million, with over half of this in ongoing annual labour expenses

The machinery of government change creating DRNSW was less complex, and therefore probably less costly, than the DPIE changes. However, there were a range of costs in areas including ICT changes, project management fees, corporate staff time, and additional senior executive salaries. The cost of establishing ICT systems for the new department was \$1.2 million. This covered the separation of staff from DPIE systems and the establishment of new profiles for DRNSW staff. DRNSW recorded \$320,000 in consultancy fees directly associated with its machinery of government change. The creation of DRNSW as a standalone department necessitated an increase in senior executive staff, including a Secretary and several additional senior executives. We estimate the ongoing cost of senior executive staff required for DRNSW to operate as a separate department to be at least \$1.9 million per year ongoing.

DRNSW reported that there were no additional accommodation costs relating to the machinery of government change because its physical offices remained the same. DRNSW did not track any costs associated with branding or communication associated with the changes. There were some indirect costs associated with the DRNSW machinery of government change. Our financial audit report for 2020 noted that due to the timing of the machinery of government changes, which involved DRNSW commencing as a new department in April 2020, significant manual work was required to reconstruct the Department's financial statements for end of year reporting. This involved extracting and compiling information from the DPIE systems, which increased the risk of data corruption and errors. If DRNSW had formally commenced as a department on 1 July 2020, this additional work would not have been required.

Both departments used a structured approach to governance to guide the machinery of government changes

DPIE established internal governance arrangements to oversee the implementation of the machinery of government change. This included a steering committee and sub-committees for detailed work on key areas such as finance, ICT, and people. Activities identified as 'key milestones' related to establishing corporate functions. The scope of work for the DRNSW machinery of government change steering committee specifically excluded work related to non-corporate functions. The purpose of this was ensuring the corporate functions of departments such as finance, people, and core ICT systems were ready on 'day one' when they were due to commence operations.

For the DPIE machinery of government change, the transition period was around three months, which was a relatively short period given the scale and complexity of the changes required. For the establishment of DRNSW, the new department became operational on the day it was publicly announced. The focus on establishing core corporate functions quickly meant relatively little time was given to consider what specific benefits might be achieved and how these would be measured.

There are opportunities to improve the efficiency of future machinery of government changes

The assessment of the effectiveness of the machinery of government changes that created DPIE and DRNSW highlighted several broader issues that are applicable across government. If these are addressed at a whole-of-government level, they have the potential to improve the efficiency and effectiveness of future machinery of government changes. NSW Treasury and DPC had an oversight role for the 2019 machinery of government changes that affected numerous departments including DPIE. A governance structure and overarching principles were established to manage issues at a sector-wide level. This oversight had a strong focus on ensuring timelines for establishing the new departments were met. It included requirements for reporting on some aspects of the implementation of the changes, such as tracking reductions in senior executive staff.

Staff from DPIE and DRNSW noted that there are aspects of machinery of government changes that commonly require significant time to resolve. For example, machinery of government changes usually involve negotiation about the allocation of corporate support staff to agencies that are receiving new functions. Some guidance on this was provided by DPC and NSW Treasury, but DPIE and DRNSW staff noted that significant time was spent resolving these matters. There is also potential to improve the efficiency of machinery of government changes by standardising corporate services systems, especially in departments and agencies that are frequently subject to machinery of government changes.

Several machinery of government guides and principles were circulated across the NSW Government while the machinery of government changes were being implemented. There is potential for duplication or inconsistency in the guidance currently available and it is possible that it may be applied inconsistently by different departments when implementing machinery of government changes.

2. Recommendations

Consistent with the role of the public sector in ensuring accountability for the use of public funds, by November 2022, the Department of Premier and Cabinet and NSW Treasury should:

1. consolidate existing guidance on machinery of government changes into a single document that is available to all departments and agencies. This should support transparency and accountability for the costs and benefits of machinery of government changes by including:
 - a requirement that departments subject to a machinery of government change must publish information about the estimated costs and benefits of the change in its next annual report
 - guidance on how to measure and report estimated costs and benefits of machinery of government changes
 - principles and lessons learned from previous machinery of government changes.
2. provide guidance for departments and agencies to use when negotiating corporate services staff transfers as a part of machinery of government changes, including a standard rate for calculating corporate services requirements
3. progress work to develop and implement common processes and systems for corporate services in order to support more efficient movement of staff between departments and agencies.

1. Introduction

1.1 Machinery of government changes

The term 'machinery of government' refers to the way government functions and responsibilities are allocated and structured across government departments and agencies. A machinery of government change is the reorganisation of these structures. This can involve establishing, merging or abolishing departments and agencies and transferring functions and responsibilities from one department or agency to another.

In New South Wales, the formal power to make machinery of government changes rests with the Governor under the *Constitution Act 1902*. In practice, the Governor makes these changes on the advice of the Premier. These changes may be made to support the policy and/or political objectives of the government of the day. Machinery of government changes are formally set out in Administrative Arrangements Orders, which are prepared by the Department of Premier and Cabinet under direction from the Premier and issued as legislative instruments under the *Constitution Act 1902*.

The heads of departments and agencies subject to machinery of government changes are responsible for implementing them. This includes the initial establishment of a new department and ongoing work to integrate systems and people. There are no formal requirements for measuring or reporting on the benefits and costs of machinery of government changes.

For more complex machinery of government changes, central agencies are also involved in providing guidance and monitoring the progress of machinery of government changes. This occurred for the machinery of government changes that were made after the 2019 State Government Election, discussed in section 1.2 below, when NSW Treasury set up governance arrangements to oversee the changes. The Department of Premier and Cabinet and the Public Service Commission were also involved in this.

In the decade between 2009–10 and 2019–20, there were 56 administrative arrangement orders relating to machinery of government changes. Ten orders affected more than one department. The remainder either affected single departments or agencies or made amendments to existing administrative arrangements orders. Of the changes affecting more than one department, five took place soon after NSW Government elections and a further four occurred after a change of Premier. One occurred as an administrative rearrangement beyond the impact of an election or leadership change. Exhibit 1 below shows the major machinery of government changes from 2009 to 2020.

Exhibit 1: Machinery of government changes affecting multiple departments in New South Wales 2009 to 2020

Date	Machinery of government change	Trigger
July 2009	Public Sector Employment and Management (Departmental Amalgamations) Order 2009	New Premier (September 2008)
April 2011	Public Sector Employment and Management (Departments) Order 2011	New Government elected (March 2011)
June 2011	Public Sector Employment and Management (Departments and Ministers) Amendment Order	New Government elected (March 2011) and clarifying amendments
January 2014	Administrative Arrangements Order 2014	Commencement of the <i>Government Sector Employment Act (2013)</i>
April 2014	Administrative Arrangements (Administrative Changes-Ministers and Public Service Agencies) Order 2014	New Premier (April 2014)
June 2014	Administrative Arrangements (Administrative Changes-Miscellaneous Agencies) Order 2014	New Premier (April 2014) and clarifying amendments
April 2015	Administrative Arrangements (Administrative Changes-Public Service Agencies) Order 2015	Government re-elected (March 2015)
March 2017	Administrative Arrangements (Administrative Changes-Public Service Agencies) Order 2017	New Premier (January 2017)
April 2019	Administrative Arrangements (Administrative Changes-Public Service Agencies) Order 2019	Government re-elected (March 2019)
April 2020	Administrative Arrangements (Administrative Changes—Regional NSW and Independent Planning Commission) Order 2020	Administrative re-arrangement and clarifying amendments

Source: Audit Office analysis of Administrative Arrangements Orders, 2021.

Other comparable jurisdictions have made machinery of government changes with similar frequency in recent years. For example, audits of machinery of government changes in other jurisdictions reported the Victorian Government made around 40 administrative orders relating to machinery of government changes between 2009–10 and 2019–20 and the Australian Government made 60 from 2009–10 to 2014–15. Most of the larger changes in these jurisdictions also followed elections or leadership changes.

Previous studies of machinery of government changes have indicated they can be costly but have also noted the difficulty of fully understanding the costs. Estimates of machinery of government changes made in other comparable jurisdictions differ widely. The UK National Audit Office in 2010 estimated the direct cost of a significant machinery of government change to be roughly £15.0 million (equivalent to \$24.6 million at the time) in the first year. A Victorian Parliamentary inquiry into machinery of government changes in 2016 found that each change cost up to \$2.4 million. By comparison, the ANAO found that in 2013, each machinery of government change cost the federal government \$14.5 million on average, with costs significantly higher for more complex changes.

Costs that are typically associated with machinery of government changes include:

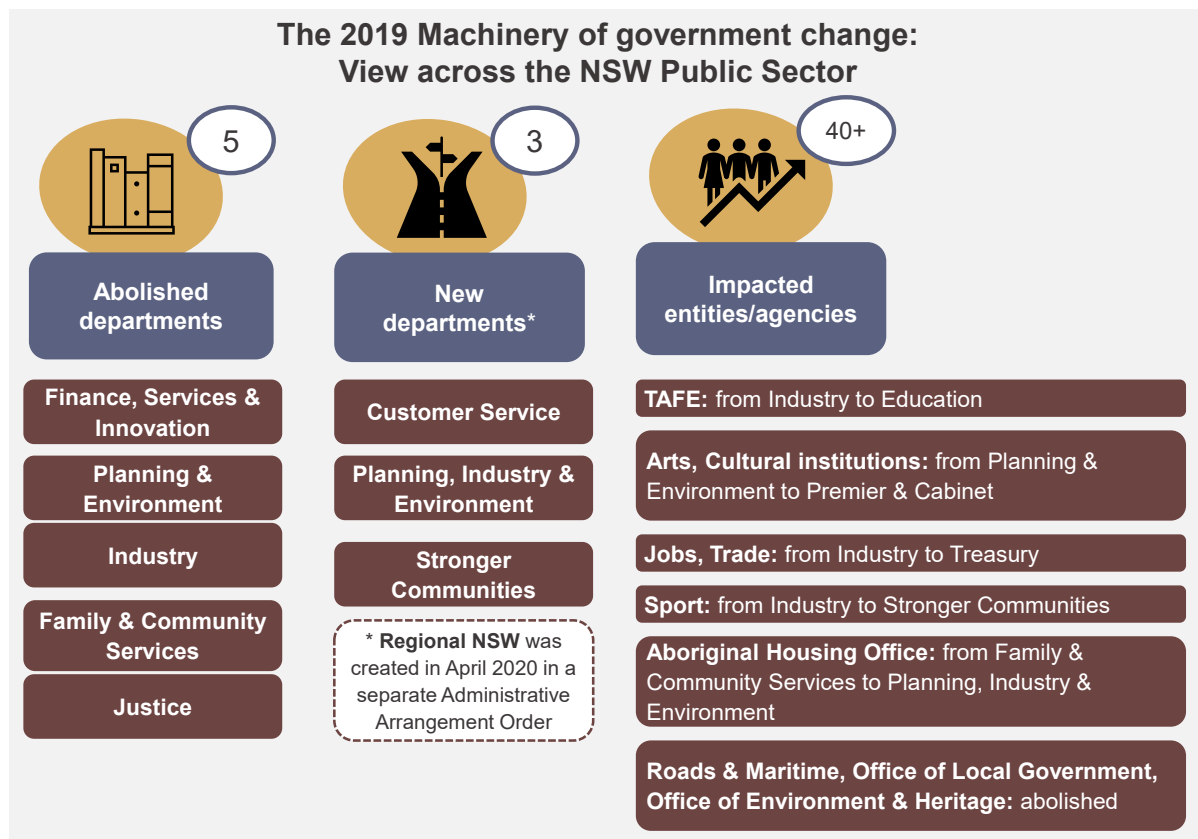
- Staff costs (including redundancies, short-term staff appointments, recruitment costs, salary increases, training, consultation with staff, transfer of leave entitlements, staff project costs).
- Accommodation costs (including lease exit payments/restoration costs, exit fees for service provider contracts, costs of physical movement of employees, furniture, resources, and equipment).
- Information technology and Records Management (including capital IT additions, IT consultancy costs, and costs from ending or starting contracts).
- Branding and communication (including signage and other branding, website development, stakeholder communication, public awareness/advertising).
- Corporate functions (including costs of establishing human resources and finance functions).

Our [Report on State Finances 2019](#), tabled in October 2019, identified several risks that can arise from machinery of government changes. These include: challenges measuring the costs and benefits of machinery of government changes; disruption to services due to unclear roles and responsibilities; and disruption to control environments due to staff, system and process changes.

1.2 Machinery of government changes assessed in this audit

On 2 April 2019, the NSW Government announced major machinery of government changes that involved abolishing five departments (Industry; Planning and Environment; Family and Community Services; Justice; and Finance, Services and Innovation) and creating three new departments (Planning, Industry and Environment; Communities and Justice; and Customer Service). Most other departments that were not abolished had some functions added or removed as a part of these machinery of government changes. Exhibit 2 below summarises these changes.

Exhibit 2: Summary of the April 2019 machinery of government changes



Source: NSW Treasury internal documents, June 2019 (unpublished).

The Department of Planning, Industry and Environment (DPIE) was established on 1 July 2019, as administrative changes orders were issued on 2 April 2019. DPIE combined most of the functions and the former Department of Planning and Environment and former Department of Industry, as well as some functions relating to property and regional NSW from other departments. The machinery of government change also involved the movement of some government agencies and entities into what the NSW Government describes as the Planning, Industry and Environment 'cluster'. The NSW Government uses clusters to group certain agencies and entities with related departments for administrative and financial management. Clusters do not have legal status.

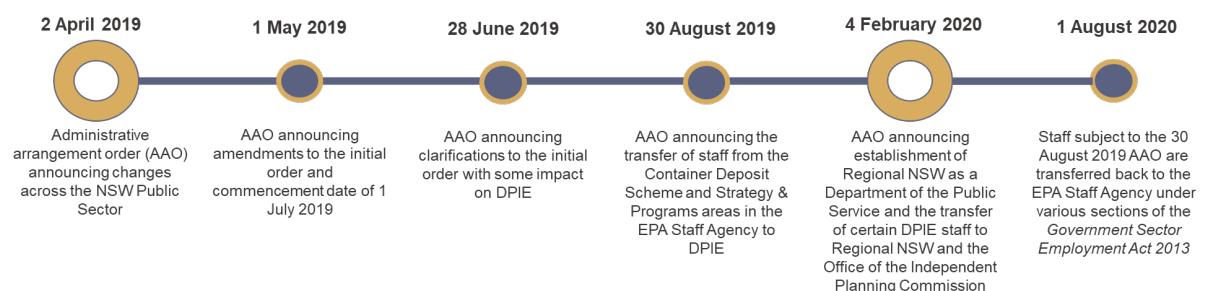
A cross-sector machinery of government steering committee was established by DPC and NSW Treasury to oversee agency implementation of the 2019 machinery of changes. The committee commenced work before the 2019 state government election in anticipation of potential changes. The Committee was chaired by the Secretary of DPC and attended by the Secretary of NSW Treasury, the Public Service Commissioner, and the Secretary of Customer Service. DPC and NSW Treasury advised that this governance body was created to ensure the changes were completed quickly, with the goal of reducing the period that agencies would be disrupted by the changes. The steering committee's areas of focus included:

- ensuring continuity of services to the community
- change management, staff engagement and people management
- realising cost savings opportunities
- issue escalation and risk management.

The committee reported to the Secretaries Board and was supported by a project management team and working groups were formed to focus on the specific areas of people, finance, ICT, accommodation, legal and communications. The areas of focus indicate that the purpose of these whole-of-government structures was to help ensure the new departments were ready to operate by the scheduled commencement date of 1 July 2019, which was three months after the changes were announced. NSW Treasury and DPC did not have a specific role in the machinery of government changes that created DRNSW because the creation of DRNSW was a smaller and more discrete change.

The Department of Regional NSW (DRNSW) was established on 2 April 2020. It was created from DPIE staff who had been employed in the Regions, Industry, Agriculture and Resources Group. Several agencies related to regional NSW also moved from the Planning, Industry and Environment 'cluster' into the new Regional NSW 'cluster', which the NSW Government created to administer agencies and entities related to DRNSW. The legislative instruments used to make these changes are summarised in Exhibit 3 below.

Exhibit 3: Legislative instruments used in the DPIE and DRNSW machinery of government changes, April 2019 - August 2020



Source: Audit Office analysis of Administrative Arrangements Orders and internal DPIE documents.

1.3 About the audit

This audit assessed the machinery of government changes that created DPIE in 2019 and the subsequent machinery of government change creating DRNSW in 2020. It also considered the role of the Department of Premier and Cabinet and NSW Treasury in overseeing machinery of government changes. The audit objective was to assess how effectively the Department of Planning, Industry and Environment and the Department of Regional NSW managed the 2019 and 2020 machinery of government changes.

The audit investigated whether:

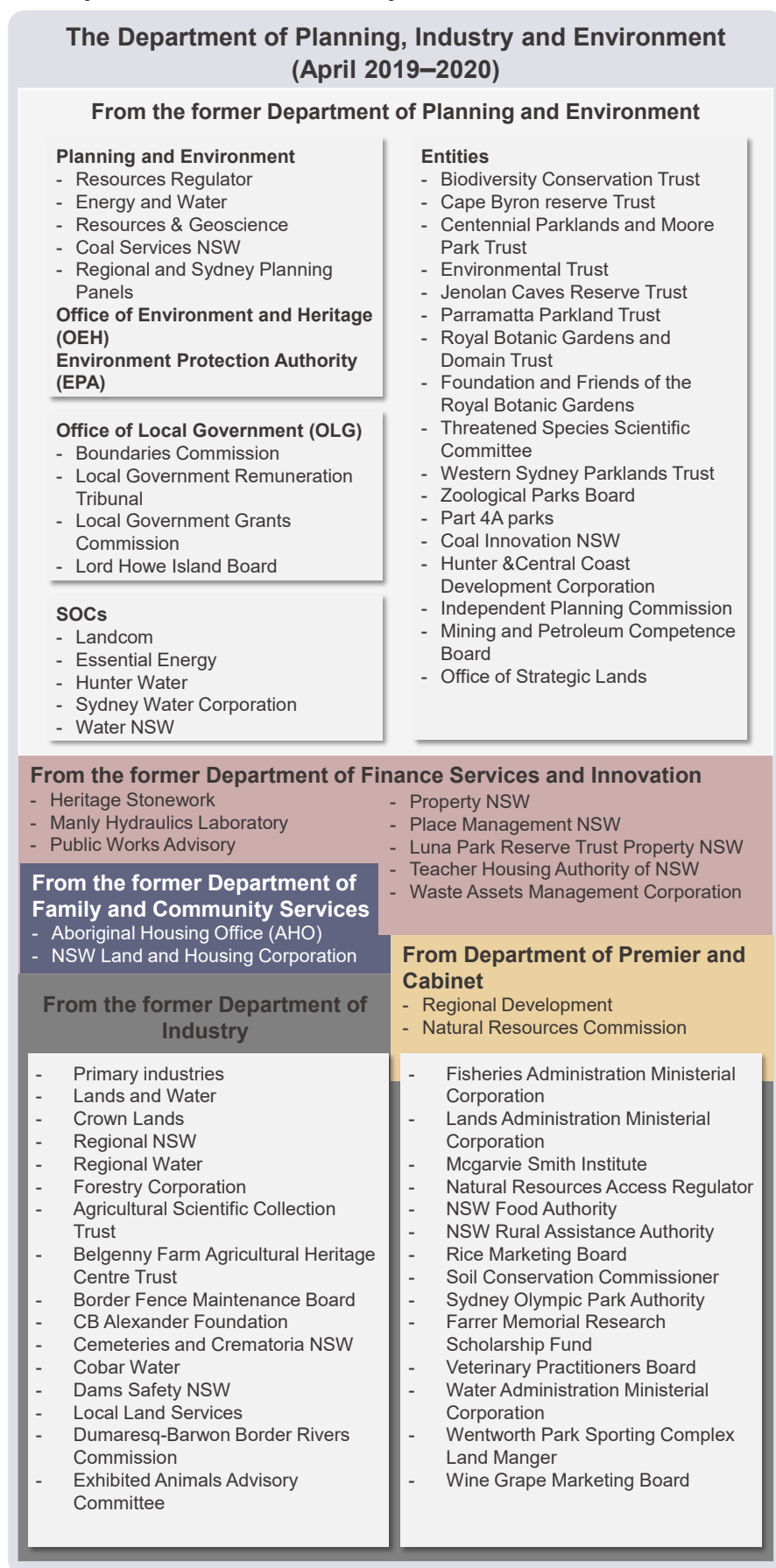
- DPIE and DRNSW have integrated new responsibilities and functions in an effective and timely manner.
- DPIE and DRNSW can demonstrate the costs of the machinery of government changes.
- The machinery of government changes have achieved or are achieving intended outcomes and benefits.

2. Department of Planning, Industry and Environment

2.1 Overview of DPIE

The Department of Planning, Industry and Environment (DPIE) was formed by combining most of the functions of the former Department of Planning and Environment (DPE) and the former Department of Industry (DOI). This occurred shortly after the 2019 NSW Government election. In addition to receiving most of the functions of the former DPE and DOI, some functions from the former Department of Finance, Services and Innovation and Department of Family and Community Services (both abolished as a result of the 2019 machinery of government changes) and the Department of Premier and Cabinet (DPC) were moved to DPIE. The machinery of government change also involved the movement of some government agencies and entities into what the NSW Government describes as the Planning, Industry and Environment 'cluster'. The NSW Government uses clusters to group certain agencies and entities with related departments for administrative and financial management. Clusters do not have legal status. Exhibit 4 below summarises the main changes.

Exhibit 4: Summary of functions, agencies and entities forming the Department of Planning, Industry and Environment, at 1 July 2019



Source: Audit Office presentation of internal DPIE information, 2021.

DPIE and its associated agencies and entities form a complex and diverse group, with budgeted recurrent expenditure of \$6.1 billion and capital expenditure of \$1.0 billion for 2021–22, with over 9,200 full time equivalent staff. DPIE has many entities with diverse roles, governance arrangements, and reporting lines, as shown in Exhibit 5 below.

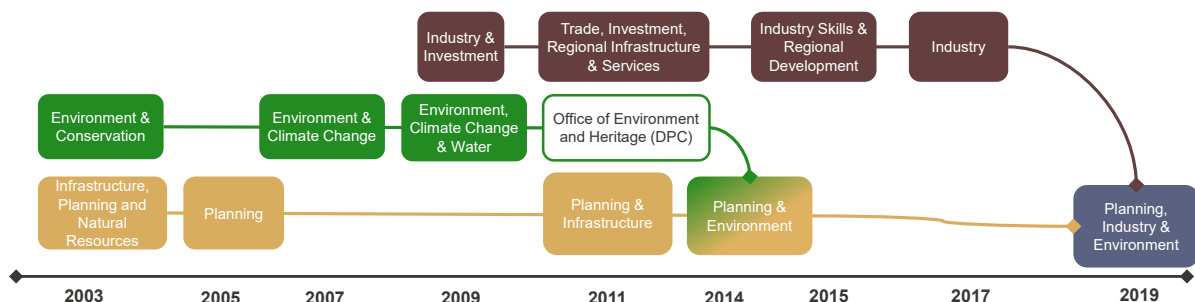
Exhibit 5: Summary of entity types in the Department of Planning, Industry and Environment



Source: Audit Office presentation of internal DPIE information, 2021.

Machinery of government changes have been common in the government departments and agencies responsible for planning, environment and industry functions in recent years. Each of these areas has went through four changes between 2003 and the creation of DPIE in 2019, as shown in Exhibit 6 below.

Exhibit 6: Machinery of government changes in departments responsible for planning, environment and industry: 2003 to 2019



Source: Audit Office analysis of Administrative Arrangements Orders, 2021.

2.2 Benefits and cost of the change

The specific reasons for establishing DPIE were not documented at the time of the machinery of government change and anticipated benefits were not defined

The machinery of government change that created DPIE was one of several major changes announced in April 2019. There was no specific statement from the former Premier or Ministers about the purpose of the DPIE machinery of government change. The former Premier stated the overall rationale for the suite of machinery of government changes made in April 2019 was 'to deliver better services, better infrastructure, in a more timely manner to the people of NSW'. DPC advised that the 2019 machinery of government changes were included on Secretaries Board meeting agendas, but the minutes did not record the details of these discussions or agreed actions. Comments from the Secretary of the Department of Premier and Cabinet (DPC) at a public presentation indicate that creating DPIE was intended to help address the 'great challenges of our time, around climate, around drought, around environment and around development'. A cross-government steering committee chaired by the Secretary of DPC was established to help prepare for the anticipated machinery of government changes, as described in Chapter one. However, this committee did not document any specific reasons for establishing DPIE or the benefits anticipated from this change.

Subsequent communication from the former Premier to Ministers with portfolio responsibilities in DPIE set out the policy priorities and outcomes desired for the new department. These included:

- increasing green space in urban areas
- streamlining the planning system
- reviewing regulatory functions with a view to consolidation
- developing coordinated approaches in policy areas including water, energy, climate change and sustainability
- progressing land management reforms.

The priorities set out by the former Premier were reflected in DPIE's 'outcome and business plan', which is required under the NSW Government's Outcome Budgeting policy. This included indicators to measure progress toward achieving the state outcomes and election commitments that were assigned to DPIE. However, DPIE did not articulate how the machinery of government change itself would help to achieve these desired outcomes and benefits. This means that while DPIE has some measures of outcomes achieved since the machinery of government change, it cannot demonstrate that these are attributable to the changes.

DPIE staff we interviewed described the overall goal of the machinery of government change as bringing together the 'brown and green' or 'natural and built' policy and delivery areas. The purpose of this was to reach shared positions within DPIE and bring agreed proposals to Cabinet for discussion and approval. DPIE's internal reporting states that 37 Cabinet submissions were made in the six months to June 2020, all of which had been agreed at its Ministers' Committee for DPIE. However, there is no information cited to indicate whether this was an improvement compared to arrangements prior to the machinery of government change. Other indicators of the success of the machinery of government change that DPIE has cited include:

- the integration of many disparate agencies into a single department with an increasingly cohesive culture and shared values and identity, and
- the establishment of several agencies to support the goal of better place-based planning, including Placemaking NSW and Greater Sydney Parklands.

These examples are indicators that DPIE was established as a new department, but they do not demonstrate that specific benefits or outcomes have been achieved as a result. The process of establishing a new department involves cost and disruption, as discussed in the following section, so it is important to be able to clearly show that the changes made are linked to tangible benefits. Since completing the machinery of government change, DPIE has not conducted a structured evaluation of the process, which is suggested in NSW Government guidance on machinery of government changes.

Estimated costs directly attributable the machinery of government change were at least \$23.7 million

The machinery of government change creating DPIE was large and complex and involved costs in areas including ICT changes, consultant fees and corporate staff time. A summary of estimated costs associated with the establishment of DPIE is in Exhibit 7 below.

Exhibit 7: Estimated cost of the Department of Planning, Industry and Environment machinery of government change

Category	Amount (\$m)	Notes
Redundancies [#]	15.5	Redundancy payments for 83 FTE staff, made in the period shortly after the machinery of government change
ICT	7.7	Consolidation of six ERP platforms, Merger and decommissioning of collaborative working and office application platforms, Email address changes, Integration of 20 intranets Associated professional services fees
Personnel directly working on the machinery of government change	0.3	Business services staff (payroll, finance) from previous Department of Industry for configuration, communications, data migration work
Organisational design consultancy	0.2	Organisational design analysis and recommendations on structure and reporting lines in the new department
TOTAL	23.7	

Potential longer-term savings arising from redundancies are not included in this estimated, for reasons described in the report text below.

Note: Figures in this table are rounded to one decimal place.

Source: Audit Office analysis of data provided by DPIE.

DPIE provided information indicating it spent around \$7.7 million on ICT changes required because of the machinery of government change. This included the cost of transferring staff from the Google Docs to Microsoft 365 collaboration platforms and professional services fees for setting up the new DPIE email addresses for staff. When DPIE was established, the ICT environment included:

- Staff working across two collaboration systems (Office 365 and Google Docs).
- 6 separate enterprise resource planning (ERP) systems to manage corporate functions such as finance, HR and payroll. As noted in our previous Financial Audit reports, this increases the risk of inaccuracies in the department's data.
- 20 separate intranets.

DPIE has reported \$15.5 million in redundancy costs around the time of the machinery of government change. This covered the cost of redundancy payments to 83 full-time equivalent staff, most of which were senior executives. The reduction in senior executive staff may have led to longer-term savings on employee expenses, but these potential savings were not tracked by DPIE, DPC or NSW Treasury, so are not included in our estimate of the financial impact of the machinery of government change. We note that the number of senior executives subsequently increased by 35 full-time equivalent staff between 2019–20 and 2020–21, after the machinery of government change was completed.

We note that there was a pre-existing NSW Government policy of reducing senior executive numbers and the former Department of Industry and Department of Planning and Environment had pre-existing budget savings targets that would have required a reduction in staff numbers. However, the number of redundancies is attributable to the machinery of government change because it exceeded the requirements of these policies and took place in the period close to the announcement of the change.

DPIE recorded the time that some business services staff spent on tasks including communications, data migration and configuration. DPIE estimated the cost of this to be around \$288,000. However, this only recorded time spent by staff in the former Department of Industry, so it is unlikely to capture the full cost of this work related to the machinery of government change. DPIE engaged a consultant to support the organisation design at a cost of around \$170,000. DPIE did not report any additional costs relating to property or branding and communication associated with the machinery of government change.

There were a range of additional indirect costs associated with the DPIE machinery of government change that were not tracked

There are a range of indirect costs that are not recorded but are likely to have an impact on the operations of departments undergoing machinery of government changes. For example, the time of those involved in steering committees and working groups set up to implement machinery of government changes has not been recorded because this work was absorbed within existing budgets. Departments are not required to keep these records and there is limited central guidance for departments on tracking expenditure associated with machinery of government changes.

Some staff reported inefficiencies in transferring ICT systems, which resulted in staff having to maintain multiple email addresses to access multiple systems that are maintained by other departments. These issues are compounded in parts of government that are subject to frequent machinery of government changes if previous work required to integrate systems is not completed before further changes are made. There are many entities within DPIE that have been subject to five or more machinery of government changes since 2003, including Crown Lands and the National Parks and Wildlife Service (six changes) and the Environment Protection Agency (five changes).

Some DPIE staff we interviewed suggested machinery of government changes lead to decreases in staff productivity, at least in the short-term because of negative impacts on staff morale. This could occur because of concerns about job security, lack of clarity about role changes, or 'change fatigue' in areas that have been through frequent changes in recent years. These anecdotal examples were commonly cited by staff who have experience in multiple machinery of government changes, but the impact is difficult to quantify.

Audits on this topic in several comparable jurisdictions have reported similar comments from staff who have been involved in machinery of government changes. Research on machinery of government changes in the Commonwealth Government has also found that cultural differences in departments that are merged can be disruptive, especially when implemented within a short timeframe. However, the annual People Matter Survey, which provides data in areas including NSW public sector staff engagement, does not indicate a drop in staff morale in the period after the machinery of government change. DPIE did not collect any data, such as pulse surveys, that assessed this issue specifically.

The whole-of-government steering committee chaired by DPC did not require departments subject to machinery of government changes to report on costs incurred or benefits achieved and did not provide guidance to departments in these areas. However, the committee had listed 'realising cost saving opportunities' as a principle for the sector-wide April 2019 machinery of government changes. NSW Treasury coordinated some reporting on reductions to senior executive staff numbers, but potential savings arising from the DPIE changes were not recorded.

The gaps in information about how much machinery of government changes cost and what benefits are achieved reduce transparency to Parliament and the public and limit the ability of agencies to share lessons about what works. The government sector core values include 'providing transparency to enable public scrutiny', and 'focusing on the efficient, effective and prudent use of resources'. In the case of machinery of government changes, this should include attempting to track and report on the costs and benefits of the changes. We note that this needs to be balanced against the need to avoid increasing the administrative burden on departments subject to machinery of government changes.

Placing regulation, policy and delivery functions within the DPIE 'cluster' created some risks that were not clearly acknowledged or addressed during the machinery of government change

DPIE is a large and complex department that includes many associated agencies and entities that have independent or 'arms-length' regulatory and advisory roles, as described in Exhibit 3 above. There were potential risks to governance and decision-making associated with placing regulatory, policy and delivery agencies within the same 'cluster'. For example, the creation of DPIE involved placing the Environment Protection Authority (EPA) and Forestry Corporation of NSW in the same department. As the environmental regulator for the state, the EPA has investigated and prosecuted the Forestry Corporation. Internalising these potential conflicts within a single department creates a risk that stated government commitments or priorities may override regulatory or independence objectives. Forestry Corporation was subsequently moved to Regional NSW as a part of the 2020 machinery of government change discussed in chapter three of this report.

We did not see evidence of plans to manage these issues being considered by DPIE as a part of the machinery of government change process. DPIE has a memorandum of understanding with the Independent Planning Commission but does not have any equivalent arrangements for other entities associated with the department that have an independent role. An example of challenges arising from managing the mix of policy and regulatory functions within DPIE is provided in Exhibit 8 below.

Exhibit 8: Transfers of staff between the EPA and DPIE

As a part of the 2019 machinery of government changes that created DPIE, some functions and resources associated with waste policy and programs were moved from the EPA to a division within DPIE. This was linked to DPIE's stated priority of reforming regulatory functions, which included separating policy and program delivery functions from regulatory roles. Our audit did not see any evidence of an assessment of risks to independence that may arise from this approach.

The EPA is an independent statutory body that has specified statutory functions and responsibilities relating to environmental protection and waste management, and reports to a Board. These functions and responsibilities were not altered by the machinery of government change. After the staff transfer was completed, the Board raised concerns that this would reduce the EPA's ability to fulfil its statutory functions and the Board's ability to provide oversight of these functions.

The functions and resources, which included 68 staff, were transferred back to the EPA in July 2020, with the agreement of the DPIE Secretary and the CEO of the EPA. This process required additional work to undo transfers previously made across a range of areas, including:

- additional consultation with affected staff who had been transferred out of the EPA around 12 months earlier
- the development of a change management plan
- transfer of grant agreements and contracts that had been previously transferred to DPIE from the EPA
- staff and operating budget transfers.

Source: Audit Office analysis of DPIE documents (unpublished).

DPIE established governance and project management structures, but the documentation of risk management and lessons learned had some gaps

DPIE established internal governance arrangements to oversee the implementation of the machinery of government change. This included a Machinery of Government Steering Committee to provide guidance and approval for areas including the program of work, scope and timelines. The governance framework also included working groups responsible for detailed work in key areas such as finance, human resources, and governance.

The focus of the initial stage of the machinery of government change was on establishing corporate functions with some work about organisation design for the new department being undertaken separately by the DPIE Leadership Team. The original plan focused on milestones that were deemed critical for the Department to be operational by the nominated start date, including finance and ICT systems. This plan extended to October 2019 for matters that were not critical for DPIE to be operational on 1 July. Most of the steps set out in the better practice guidance that DPIE used were followed. However, DPIE did not complete a post-implementation or project closure report, which would have allowed the recording of lessons learned.

Project management documentation indicates that there were delays in several areas including escalations from sub-groups. Meeting minutes did not record strategies for rectifying these delays although verbal updates were made to the DPIE leadership team. There was a combined risk, decision and issue register but this was not completed consistently, with little information about how the assessment of risks were made. For example, the machinery of government coordination group reported as a 'risk for noting only' to the DPIE Leadership team that there were 'OEH staff concerns (that could) impact morale and confidence'. The strategy for mitigating this risk was 'to ensure ongoing communication of changes and commencement of change strategies throughout the machinery of government changes'. There was no measurement of the impact of the communication or change strategies.

There are currently several different machinery of government guides and principles in circulation across the NSW Government. DPIE staff we interviewed advised that they used a better practice guide that had been developed by the former Department of Planning and Environment as a part of previous machinery of government changes. The steering committee overseeing the 2019 machinery of government changes developed a separate set of principles that were intended to guide the approach to the changes. The whole-of-government machinery of government project management team produced a report that included lessons and recommendations for future machinery of government changes. It is possible that other sources of guidance are in circulation in other departments that have undergone machinery of government changes in recent years. This means there is potential for duplication or inconsistency in the guidance currently available.

Staff from DPIE and DRNSW suggested the efficiency of machinery of government changes could be improved if the 'repeatable' aspects could be standardised. For example, having an agreed rate to calculate the cost of corporate services would mean that agencies involved in machinery of government changes wouldn't have to negotiate this when implementing every machinery of government change. Some guidance on this was provided by DPC and NSW Treasury as a part of the 2019 machinery of government changes, but DPIE and DRNSW staff noted that significant time was spent resolving these matters.

There is also potential to improve the efficiency of machinery of government changes by standardising corporate services systems, especially in departments and agencies that are frequently subject to machinery of government changes. The NSW Government has commenced work on a project to consider the need for a single Enterprise Resource Planning system covering corporate services systems for multiple departments and agencies (excluding Health, Transport and Education). The scope of this audit did not include examining this project, but we understand it is currently in the initial planning phase.

3. Department of Regional NSW

3.1 Overview of DRNSW

The Department of Regional NSW (DRNSW) commenced operating on 2 April 2020. DRNSW and the agencies comprising the Regional NSW 'cluster' are responsible for primary industries, local land services, mining and exploration, and regional NSW, as summarised in Exhibit 9 below. The NSW Government uses clusters to group certain agencies and entities with related departments for administrative and financial management. Clusters do not have legal status.

DRNSW and its associated agencies have around 4,500 staff across NSW with 76 per cent of staff working in regional areas. Its main offices are in Orange, Sydney, Queanbeyan, Armidale, Orange, Coffs Harbour and Dubbo. At the time of its establishment, DRNSW supported the former Deputy Premier in his capacity as Minister for Regional NSW, Industry and Trade and two other Ministers with portfolio responsibilities relating to regional NSW. Prior to the creation of DRNSW, these functions were located within the Department of Planning, Industry and Environment, in the Regions, Industry, Agriculture and Resources Group.

Exhibit 9: The Department of Regional NSW and its associated entities



Source: Audit Office presentation of DRNSW internal information 2020.

The establishment of DRNSW involved removing functions from one part of a department to create a new department. This distinguishes it from many other machinery of government changes, including the DPIE change, that involve the abolition and merger of multiple departments and agencies. As a result, the process for the DRNSW change involved separating rather than combining functions and there were no requirements from government that the machinery of government change would result in specific efficiency savings. There was also a NSW Government policy that there would be no reduction in the number of NSW Government staff employed in regional areas.

3.2 Benefits and cost of the machinery of government change

The broad purpose of establishing DRNSW was set out consistently, but there was no clear articulation of the specific problems that creating DRNSW would address

The former Deputy Premier announced the establishment of DRNSW on 2 April 2020. The government's media release stated that the intended benefits of the new department were 'to better coordinate support for communities, business and farmers in in the bush that have endured drought, bushfire and flood and now face the impact of the COVID-19 pandemic'. It further stated that DRNSW would 'be a voice in government for people in the bush...(that) will allow a more streamlined response to regional issues.'

DRNSW executive staff we interviewed articulated the purpose of the new department consistently with these statements from the government. Particular areas of focus noted were increasing the representation of regional issues at key decision-making bodies such as Cabinet and the Secretaries Board and providing greater focus on the challenges unique to regional communities. These areas of focus have been reflected in DRNSW's internal planning and public documents.

Some DRNSW staff we interviewed suggested that placing regional functions within DPIE as a part of the 2019 machinery of government changes had made it harder to bring attention to regional issues due to the size of DPIE. DRNSW staff stated they believe the department is providing better representation for the regions because there is now a minister on Cabinet committees and a Secretary at the Secretaries Board. DRNSW staff we spoke with stated they believe the intended benefits were achieved immediately with the creation of the agency.

However, there was no quantification of gaps in the representation or coordination of regional issues before or after the DRNSW machinery of government change was made. Nor were any targets set for making improvements in these areas. This means there was no clear definition of the problem that the creation of DRNSW was intended to address.

The absence of baseline information on the NSW Government's performance in these areas makes it difficult to attribute any changes in performance to the establishment of DRNSW. The department has developed a range of outcome measures as a part of its outcome budgeting reporting, but this is constrained by the fact that DRNSW does not have data on past performance in most areas and lacks current data in some. DRNSW has not conducted a structured evaluation of the machinery of government change, which is suggested in NSW Government guidance on machinery of government changes.

Costs directly attributable to the machinery of government change were at least \$4.0 million, with at least \$1.9 million of this in ongoing senior executive salaries

The machinery of government change creating DRNSW was less complex than the DPIE changes, but there were a range of costs in areas including ICT changes, project management fees, corporate staff time, and additional senior executive salaries. A summary of estimated costs associated with the establishment of DPIE is in Exhibit 10 below.

Exhibit 10: Costs attributable to the Department of Regional NSW machinery of government change

Category	Amount (\$m)	Notes
ICT	1.2	Migration from DPIE platforms Creation of new user profiles
Personnel directly working on the machinery of government change	0.6	Costs of DPIE staff across payroll, finance, business services
Consultancy fees	0.3	Analysis of new corporate services arrangements Project management services to support the machinery of government change
Increase in senior executive staff	1.9	Senior executive roles or Band increases required due to the establishment of a stand-alone Department. This figure does not include 23 non-executive positions that were created to support new functions such as the Office of the Secretary and Corporate services.
TOTAL	4.0	

Note: Figures in this table are rounded to one decimal place.

Source: Audit Office analysis of data provided by DRNSW and DPIE (unaudited).

The cost of establishing ICT systems for the new department was \$1.2 million. This covered the separation of staff from DPIE systems and the establishment of new profiles for DRNSW staff. DRNSW reports it spent around \$320,000 on consultant fees for project management services and analysis to support decisions about new corporate services arrangements. There is no formal requirement for agencies to record the cost of staff time spent on machinery of government changes. However, DPIE recorded the time spent by some corporate services staff on the establishment of DRNSW and estimated these costs as approximately \$630,000.

The DRNSW machinery of government change has resulted in an increase in senior executive staff. The creation of the new department necessitated a Deputy Secretary position being converted to a Secretary and there were another 11 senior executive positions created for DRNSW compared to the previous structure when regional functions were within DPIE. We estimate that the annual cost of these additional positions is at least \$1.9 million per year in salaries. DRNSW also created additional positions in the Office of the Secretary, with an increase of 23 full-time equivalent non-executive staff. We have not included this cost in this estimate because of a lack of reliable data.

DRNSW reported that there were no additional accommodation costs because of the machinery of government as there were no changes to its offices. DRNSW did not track any costs associated with branding or communication associated with the changes.

There were some additional indirect costs associated with the DRNSW machinery of government change that were not tracked

There were some indirect costs associated with the DRNSW machinery of government change. Our financial audit report for 2020 noted that due to the timing of the machinery of government changes, which involved DRNSW commencing as a new department in April 2020, significant manual work was required to reconstruct the Department's financial statements for end of year reporting. This involved extracting and compiling information from the DPIE systems, which increased the risk of data corruption and errors. If DRNSW had formally commenced as a department on 1 July 2020, this additional work would not have been required.

DRNSW staff interviewed reported that the machinery of government change did not have any negative impact on service delivery and did not decrease staff engagement or morale. There was no clear decrease in indicators of staff engagement in the People Matter survey data and there were improvements in staff ratings on questions relating to communication and change management. However, making direct comparisons is difficult because the constituent parts of DRNSW were involved in multiple machinery of government changes in recent years.

The core requirements of the machinery of government change were completed on time

DRNSW met most of its deadlines for establishing the new department. DRNSW signed the final service partnership agreement (SPA) with DPIE to provide corporate services on 24 September 2020, almost three months after the target date. However, an interim SPA was in place during this period and DPIE continued providing services to DRNSW until the final agreement was completed.

DRNSW established governance arrangements to oversee implementation of the machinery of government change. The design of DRNSW's governance arrangements largely followed good practice principles. DRNSW established clear lines of responsibility and the governance bodies regularly met and reported on progress. The governance arrangements included a steering committee to oversee the machinery of government change, a project management office, and working groups focusing on specific areas such as finance and ICT.

Staff who were remaining at DPIE also played significant roles in setting up DRNSW during the transition period. DPIE corporate services staff established a group led by the Deputy Secretary for Corporate Services to oversee DPIE's work to support the machinery of government change.

The governance bodies did not have a role in planning how benefits from the machinery of government change would be monitored or reported on. DRNSW prepared a transition plan focusing on the first 90 days after the announcement of the machinery of government change. Its aim was to ensure a smooth migration of people and services into the new DRNSW structure with minimal impact on customers and teams. The focus of the transition plan was on corporate services. It explicitly excluded any changes to DRNSW's operations outside of Corporate Services.

Section two

Appendices

Appendix one – Response from agencies

Response from Department of Premier and Cabinet and NSW Treasury



Ref: A5242254

Ms Margaret Crawford
Auditor-General for New South Wales
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford

Final Report – Machinery of government changes

We write in relation to your letters to the Department of Premier and Cabinet (DPC) and Treasury respectively dated 18 and 19 November 2021, which enclosed the final report for the performance audit on machinery of government (MoG) changes at the Department of Planning, Industry and Environment and the Department of Regional NSW (the **Final Report**).

Thank you for providing us with the opportunity to engage with your office in the finalisation of this audit, including by accepting and addressing our comments on the draft report. As invited by you, we set out below our formal response to the final report on behalf of DPC and Treasury, to be incorporated into the published report.

Agencies' ability to track and report on the costs and benefits of MoG changes

It is acknowledged in the Final Report that MoG changes are made by the Governor on the advice of the Premier under Part 7 of the *Constitution Act 1902*. In response to DPC's comments on the draft report, text was added to the Final Report to recognise explicitly that decisions in relation to MoG changes are made by the Premier.

However, you maintain in the Final Report that affected agencies should track and report on the costs and benefits of these decisions.

In particular, the Final Report states the following (on page 3 – emphasis added):

DPC and NSW Treasury advised that they did not define the rationale or anticipated benefits of machinery of government changes because the changes are made at the request of the Premier and the reasoning behind the changes is a matter for the Premier, not the departments implementing them. DPC and NSW Treasury also stated that the purpose of some machinery of government changes may include policy or political benefits for the government, which agencies could not articulate or monitor.

We acknowledge that the reasons for making machinery of government changes, and the desired benefits of the changes, are decided by the Premier. However, the public service's role includes ensuring that there is accountability for the use of public funds. In the case of machinery of government changes, this should include tracking and reporting on the benefits and costs of these activities to enable appropriate transparency and accountability.

The Report provides further that (on page 15):

The government sector core values include “providing transparency to enable public scrutiny”, and “focusing on the efficient, effective and prudent use of resources”. In the case of machinery of government changes, this should include attempting to track and report on the costs and benefits of the changes.

The government sector core values cited in your Report underpin the work of the government sector and we support them entirely. A commitment to accountability, transparency and the efficient use of resources is critical in the work we do.

There are, however, two main limitations on the ability of agencies to track and report on the costs and benefits of MoG changes. First, the role of the public service is to serve the government of the day, in an apolitical and impartial way. Consistent with Westminster principles, advice provided to the government should be frank and fearless. However, once the government makes a decision, including that a change to the structure of the public service is to be made, it is the responsibility of agencies to implement that decision rather than audit or review that matter, unless requested to undertake such a review by the government.

Secondly, it would be challenging for agencies to capture the costs and benefits of any MoG change adequately. This is because the reasoning behind any MoG change is a matter for the Premier and not the public service. As such, any attempt by agencies to measure and report on the costs and benefits of a MoG change would not be conclusive. Further, changes to the structure of the public service which are made by the Premier in order to set a new or stronger focus on certain areas are not necessarily quantifiable in financial terms.

In our experience, agencies affected by MoG changes place great emphasis on the efficiency of the implementation process. We support recommendations that would further enhance efficiencies, including through enhanced transparency. However, any such recommendations can only be applied in a manner that is consistent with the role of agencies in relation to MoG changes.

Response to recommendations

The first recommendation made in the Final Report is that DPC and Treasury consolidate existing guidance on MoG changes into a single document that is available to all Departments and agencies. We acknowledge that, as stated in the Final Report, several guidance documents were circulated across government while the relevant MoG changes were being implemented. We agree that it would be beneficial to have a single source of information for MoG changes and will seek to develop this guidance within the timeframe given in the Final Report (by November 2022).

That recommendation also provides that this consolidated guidance should include:

- a requirement that Departments subject to a MoG change must publish information about the estimated costs and benefits of the change in its next annual report
- guidance on how to measure and report estimated costs and benefits of MoG changes.

We have outlined above our concerns with this aspect of the recommendation. We understand from our correspondence with your office in relation to this audit that the intent of this component of Recommendation 1 is not to require agencies to comment on MoG changes, but rather to support transparency and accountability for the implementation of these decisions.

On that basis, and in line with the limitations discussed above, we will seek to give effect to this part of Recommendation 1 by encouraging agencies to identify, estimate and publish those direct and measurable costs and benefits associated with the implementation of a MoG change, where those costs and benefits are reasonably able to be captured.

Recommendation 2 provides that DPC and Treasury should provide guidance for Departments and agencies to use when negotiating corporate services staff transfers as a part of a MoG change. As is acknowledged in the Final Report, we note that there was some guidance provided by DPC and

Treasury as part of the 2019 MoG changes. We will review, refresh and recirculate that guidance to make it as clear and effective as possible.

Recommendation 3 is that DPC and Treasury progress work to develop and implement common processes and systems for corporate services in order to support more efficient movement of staff between Departments and agencies. We support this recommendation and note that there are already projects underway across the sector that will help to achieve this outcome. These projects include the SAP ERP harmonisation project (Project PATH), and the CFO of the Sector initiative (which includes five priority sub-initiatives, including financial management framework refresh and capability uplift).

Thank you again for your engagement with DPC and Treasury in preparing your report.

Yours sincerely



Michael Coutts-Trotter
Secretary
Department of Premier and Cabinet

10 December 2021



Michael Pratt AM
Secretary
Treasury

15 December 2021

Response from Department of Planning, Industry and Environment



Planning,
Industry &
Environment

Office of the Secretary

IRF21/4964

16 December 2021

Ms Margaret Crawford
Auditor-General for New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford

Performance Audit: Machinery of government changes

Thank you for the opportunity to provide a formal response on this audit for inclusion in the final report to be tabled in Parliament.

As Machinery of Government changes are made by the Governor on the advice of the Premier under Part 7 of the *Constitution Act 1902*, it would be appropriate for the formal response to be provided by the Department of Premier and Cabinet rather than the Department of Planning, Industry and Environment.

I would though like to take this opportunity to acknowledge the important work undertaken by your team and thank your office for its work in relation to this and other matters.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kiersten Fishburn'.

Kiersten Fishburn
Secretary

Response from Department of Regional NSW



Regional
NSW

CM9 reference RVF20/10#19

Ms Margaret Crawford
NSW Auditor-General
NSW Audit Office
GPO Box 12
SYDNEY NSW 2001

15 12 2021

Dear Ms Crawford,

Performance Audit – Machinery of Government Changes

Thank you for the opportunity to respond to the Performance Audit Report (the Report) on Machinery of Government Changes. The Department of Regional NSW (RNSW) notes the final report and its recommendations. DRNSW supports the implementation of recommendations that will improve the way in which Machinery of Government changes are implemented across the NSW Public Sector.

Staff at RNSW appreciated the opportunity to share their insights and contribute to this audit. While RNSW is not directly responsible for the recommendations in the Report, we would encourage the Department of Premier and Cabinet and Treasury NSW to draw on the insights of RNSW staff, who can help shape the various measures to be put in place by November 2022.

Thanks to you and your team for the insights that the audit has provided.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gary Barnes'.

Gary Barnes
Secretary

Appendix two – About the audit

Audit objective and criteria

This audit assessed how effectively the Department of Planning, Industry and Environment (DPIE) and the Department of Regional NSW (DRNSW) managed the 2019 and 2020 machinery of government changes to achieve intended outcomes and benefits.

We addressed the audit objective with the following criteria:

1. DPIE and DRNSW have integrated new responsibilities and functions in an effective and timely manner.
 - a) Detailed plans and timelines were established to implement the machinery of government changes.
 - b) The implementation of the machinery of government changes met planned timelines.
 - c) Governance arrangements were established to oversee implementation and to ensure benefits and outcomes are being met.
 - d) Central agency support and governance assisted DPIE and DRNSW to implement the machinery of government changes in an effective and timely manner.
2. DPIE and DRNSW can demonstrate the costs of the machinery of government changes.
 - a) Costs (including staff, ICT, property, branding and other direct costs) associated with machinery of government changes can be identified by agencies.
 - b) The costs of the machinery of government changes can be reasonably estimated.
 - c) DPIE and DRNSW have achieved or are achieving efficiencies where they were identified prior to implementation.
3. The machinery of government changes have achieved or are achieving intended outcomes and benefits.
 - a) Intended benefits and outcomes of the machinery of government changes were articulated.
 - b) DPIE and DRNSW can demonstrate they have achieved or are working towards achieving intended benefits and outcomes of the machinery of government changes.

Audit exclusions

The audit excluded:

- Examining the costs, intended benefits, or implementation approach to machinery of government changes across the whole NSW Government.
- Commenting on the merits of NSW Government policy.

Audit approach

Our procedures included:

1. Interviewing senior executive staff from DPIE, DRNSW, DPC and NSW Treasury who were:
 - Directly involved in the implementation of the machinery of government changes.
 - Leading units that were affected by the machinery of government changes.
2. Internal and public documents associated with the machinery of government changes, including:
 - Administrative Changes Orders that relate to the machinery of government changes assessed.
 - Manuals or guides for agencies implementing machinery of government changes.
 - Project management documents for the implementation phase of the machinery of government changes, such as plans, timelines, meeting minutes and risk registers.
 - Data showing any costs associated with the machinery of government changes.
 - Reports on the outcomes and benefits of the machinery of government changes.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 'Performance Engagements' and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by staff at the Department of Planning, Industry and Environment, the Department of Regional NSW, the Department of Premier and Cabinet, and NSW Treasury.

Audit cost

The estimated cost of the audit was approximately \$430,000.

Appendix three – Performance auditing

What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Government Sector Audit Act 1983* for State government entities, and in section 421B of the *Local Government Act 1993* for local government entities.

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of Parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to Parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's Audit and Risk Committee / Audit Risk and Improvement Committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged to entities for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose

Curious and open-minded

Valuing people

Contagious integrity

Courage (even when it's uncomfortable)

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