

The Members of the Legislative Assembly
Parliament House
SYDNEY NSW 2000

In compliance with Section 38E of the *Public Finance and Audit Act 1983*, I present a report to the Legislative Assembly titled **Review of NSW Agriculture.**

A C HARRIS

Sydney
March 1997

Performance Audit Report

Review of NSW Agriculture

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Executive Summary

Executive Summary

Request From Parliament

Following a request from the NSW Legislative Council in September 1996, a performance audit into various matters affecting the operation of the *New South Wales Department of Agriculture* was undertaken by The Audit Office.

The audit was particularly concerned with the decision-making processes used in 1995 and 1996 to plan and implement a savings program for the Department.

Budget-Making In 1995

As part of the budget process in 1995, the Government initially decided to achieve savings in the Department primarily through increased cost recovery on research and extension activities, along with some additional savings measures .

The program was intended to generate additional revenue and savings for the State of some \$35m per annum after three years. The Departmental budget and forward estimates announced in October 1995 reflected that cut.

The Minister and the Department were of the view that increasing cost recovery would not achieve the level of savings required and that, to do so, a program of substantial retrenchments and facility closures was the only viable option.

The Minister conveyed this view to the Government at the beginning of August. Subsequently, the Government agreed to provide additional funding for redundancies.

The Audit Office is of the view that none of these measures was thoroughly investigated by the Government. The measures were planned and introduced rapidly with little time for the appraisal processes that the State's planning guidelines would normally expect.

The Redundancy Program To Meet Budget Targets

On 11 December 1995 the Department informed its staff of the redundancy program and requested expressions of interest, with a deadline of 31 March 1996. In total 725 were received and the Department offered more than 700 staff redundancy.

On 21 March 1996, because of the effects of the redundancy program, the Premier announced that the major part of the cut to the Department's budget was to be rescinded. By this time, 384 offers of redundancy had been made. Following the announcement, a further 302 offers were made with the agreement of the Minister. The Department explained to The Audit Office that, in view of the commitments made by the Minister and by the Director General, it was obliged to proceed with the offers even though the financial imperative had been removed. By 30 June 1996, 478 staff had accepted redundancy.

Following the budget reversal and in response to staff losses, more than 230 new positions were identified as being required immediately by the Department. These positions were subsequently advertised and recruitment continues to bring staffing levels up to those allowed by the revised budget

Although the audit did not specifically compare the old and new job descriptions, it would appear that in substance many of them carry similar duties and responsibilities.

The direct one-off cost of the redundancy program has been estimated by the Department to be around \$9.8m. There are substantial indirect costs as well.

The Audit Office is of the view that many of these direct and indirect costs could have been avoided had there been better planning and communication between the parties involved as to:

- the level of savings that could realistically be achieved within government policies and
- the ramifications of the alternative measures proposed for achieving such savings
- the feasibility of other alternatives, including staff attrition and non-renewal of temporary staff contracts

**Decentralisation
Of BCRI**

The Audit Office is also concerned about the process adopted for the decentralisation of the Biological and Chemical Research Laboratory (BCRI) and the sale of its premises at Rydalmere.

The relocation of some research and veterinary services was announced in the budget in October 1995. The decentralisation of BCRI was the major component. It was intended to improve research efficiency and effectiveness in the long term, and to generate revenue from asset sales in the short-term.

The Director General also advised that the move was part of the Government's decentralisation policy. The Audit Office could find no directive to that effect and considers that, unless a Government policy is explicit, any such directive should be in writing.

The decentralisation of BCRI was first proposed in 1990 by the Department. It involved the relocation of all functions to new premises to be built adjacent to existing rural research stations. The Government at the time did not support the move because the capital costs estimated for new building exceeded even the high return the Department expected to realise from the sale (\$22m compared with the Valuer General's estimate of between \$5m - \$16m).

The decision to relocate BCRI in 1995 was made without any further detailed cost-benefit analysis. The Audit Office finds this surprising given the earlier assessment. Even with the substantial use of refurbished research facilities in the new decentralisation proposal, any financial saving in the short-run appears likely to be marginal and well short of the \$22m claimed in the budget.

It has been put to audit that the move would have beneficial effects on the research performance of the Department in the long run. However, in the course of the audit, many have argued that the loss of scale and expertise would outweigh any benefits arising out of regionalisation.

Without a more detailed analysis, The Audit Office is not in a position to make an assessment of the merits of these different views. It considers that some form of cost-benefit analysis would have been required initially to make that assessment.

The evidence presented does not convince The Audit Office that the sale of BCRI premises at Rydalmere was the best option available.

**Planning
Generally**

Planning at the program and individual work plan level appears to work well in the Department, coordinating and managing the work of staff from different locations and disciplines to deliver program objectives. At these levels objectives are explicit, targets are set and outcome measures regularly monitored in most cases.

However, in the past, the Department has lacked an explicit long-term strategy for the overall development and rationalisation of services and facilities. The corporate plans have had few corporate strategies and targets, to serve either as a basis for priority-setting within the Department or as an accountability mechanism for Government to assess the Department's performance.

The recent publication of an action plan for the Department - *Government and Agriculture: A partnership for the future* - is a positive development in this respect. The challenge now is to build on the new *Partnership* document through the corporate planning process.

Summary of Recommendations

State Assets	An economic appraisal should be undertaken before all major developments, including rationalisation plans, are implemented. It should include details of anticipated benefits from the changes planned, so that their achievement can be evaluated after implementation.
Government Policies	Government policies should be made explicit or else established by directives in writing.
Planning	<p>Infrastructure and human resources should be planned to maximise efficiency and effectiveness. If Government chooses alternatives that have higher costs or lower benefits for the Department, then these should be explicitly funded.</p> <p>The Department should consider including corporate strategies in its next corporate plan to provide a clearer basis for strategic resource allocation and for corporate accountability.</p>
Internal Control	<p>The Department should strengthen its system of internal control by:</p> <ul style="list-style-type: none">• strengthening the role of the Board of Management as a means of management control• directing an overhaul of the Charter of the Internal Audit Committee and using it to drive the Department's internal audit function• ensuring implementation of an effective financial management information system.

Response by the Minister for Agriculture

*The Auditor General of NSW
The Audit Office of NSW
GPO Box 12
Sydney 2001*

Dear Sir

Thank you for the Final Report from The Audit Office covering the activities of NSW Agriculture which was conducted under the broad terms of reference set by your office.

This report has investigated in detail the management and control processes within NSW Agriculture. I fully support the response that NSW Agriculture has forwarded to you in regard to your Report.

I believe the report confirms that the strategies adopted by this Government and NSW Agriculture have resulted in increased efficiencies in the delivery of farm services to the agricultural community.

In particular, I believe that the Department should be congratulated for maintaining services to the agricultural community in the face of previously announced budget cuts.

In regard to this Government's policy on decentralisation, I refer to our commitment to decentralise in a press statement on 19 July 1995 when I announced that the Rural Assistance Authority would be decentralised. I note that the Department has drawn your attention to the reference to decentralise in the Treasurer's budgetary speech of October 1995.

I would like to thank you for the work your office has undertaken on this report.

Yours faithfully

(Signed)

**RICHARD AMERY MP
MINISTER FOR AGRICULTURE**

Response by NSW Agriculture

The Audit Office has included in full the response of NSW Agriculture, as requested. However, the Auditor-General notes that not all of the comments made are relevant to the conclusions reached in this report.

*Mr A C Harris
Auditor-General
The Audit Office of NSW
Level 11
234 Sussex Street
SYDNEY NSW 2000*

Dear Mr Harris

Thank you for the draft copy of the Performance Audit Report of the NSW Department of Agriculture which was conducted by your Office in response to last September's request by the Legislative Council. The report has been read with interest.

In summary, it is my considered opinion that the audit confirms that I and other members of my Executive have discharged our responsibility to implement the policies and instructions of my Minister and the Government in an efficient, effective and practical manner.

It is also my view that the various managerial initiatives progressively implemented on behalf of the Government over the last 18 months will prove to be very beneficial to our food and fibre industries and the New South Wales' community in general. Recent evidence pertaining to the impact of the decentralisation of the functions of the Biological and Chemical Research Institute from Rydalmere to regional New South Wales and changes to veterinary diagnostic services support these views.

There are however a number of particular areas of your report that require specific comment and such comments are listed on the following pages:

**1. Budget Making
in 1995**
(Executive Summary
Page ii)

In advising the Minister, the Department warned that research and extension cost cutting and cost recovery measures would have adverse effects on both the Department's capacity to continue to supply its previous level of services and also the Government's reputation with the Department's clients and rural communities.

We had also investigated, over a number of years, the experiences of Tasmania and New Zealand where cost recovery in agricultural extension had encountered extreme difficulty. In fact we are pursuing the alternative approach of encouraging private enterprise to complement the provision of production advice by NSW Agriculture front line extension staff. This type of "on-farm" production advice is increasingly being provided on a "wholesale" basis through other frontline providers such as consultants, private veterinarians, commercial agronomists, livestock agents, accountants etc. This improvement in service delivery will allow Department services to place greater focus on areas of public as opposed to private benefit such as agricultural and environmental resource management. This approach in the longer term will lead to both efficiencies by the Department and greater overall benefit to the wider community.

The Minister's and Department's contention that cost recovery was an unviable short term savings solution also took into account the Department's extensive experience over the last 6 to 7 years in designing and implementing commercialisation and other cost recovery procedures. The Department has a special Commercialisation Unit working in close association with veterinary and other diagnostic laboratories and other sections of the Department continually designing and implementing cost recovery procedures. One of the principles rigorously applied is that clearly defined private benefit services should be paid for by the beneficiaries.

**2. Use of
Redundancy to meet
Budget Targets**
(Executive Summary
Pages ii & iii)

The voluntary redundancy process was only implemented after extensive consultation between the Minister, public sector unions and the Public Employment Office. The Department had an undertaking with all parties that all eligible staff would have until 31 March 1996 to formally express an interest in an offer. By 21 March a total of 570 expressions of interest had been received in writing and a further 155 were made by the agreed closure date of 31 March. Not to have honoured this undertaking to treat all such requests on the same basis would have resulted in quite justifiable industrial protest.

**3. Decentralisation
& Sale of BCRI**

(Executive Summary
Page iv)

The Audit Office claims it could not find any Government directive to decentralize BCRI or that such a decision was part of the Government's decentralisation policy.

This directive was clearly published on Page 20 of the Treasurer's Budget Speech of October 1995 and I quote:

"NSW Agriculture will refocus research programs to major sites known as 'key centres' and, where possible, integrate them with universities and the CSIRO.

We will work harder to make research relevant to industry needs, develop sustainable agricultural systems and focus on import replacement industries.

The major research facility at Rydalmere in Sydney will be decentralised to boost research at 'key centres' in more than 15 towns in regional New South Wales".

This directive was also published on page 1-44 of Budget Paper No. 2 of October 1995 "Measures to achieve outlay savings...by decentralising and refocussing research facilities..."

Again on page 4-34 of these same published budget papers the Government announced "The Department will save \$7million by decentralising and refocussing research facilities; developing a cooperative relationship with the private sector in the provision of extension and advisory services; and by adopting a more entrepreneurial approach to securing research funding targeted at the development of new market opportunities".

On 11 March this year the Premier issued a press statement entitled "The Carr Government answers the call of country NSW" in which the Government's support of a decentralisation policy was reaffirmed. The statement quotes the Premier as follows:-

"Moving jobs to the country - the Government supports the policy of decentralisation and a review of all departments is now underway to identify up to 400 jobs to be transferred from Sydney to country NSW over the next two years".

On 18 February 1997 the Government announced the sale of the laboratory crown land component of the BCRI site to the University of Western Sydney for \$6.2m. The remaining freehold portion of 2.6 hectares plus the remaining crown land is now available for sale by the Property Services Group of the Department of Public Works.

The Department's claim of increased scientific productivity is in keeping with the world wide trend towards the development of more specialised multidisciplinary scientific teams focussed on meeting the specific needs of industry. As an example, the development of

the national Cooperative Research Centres (CRCs) scheme over the last 4 to 5 years throughout Australia has centred on developing defined, cohesive, research groups aimed at meeting well planned and targeted research outcomes. The CRCs bring together participants such as CSIRO, universities, State Departments and industry as core financial partners. Similarly during the '90s the Research and Development Corporations have moved towards funding research programs which are industry focussed and bring together the resources of several research organisations to achieve the best outcomes.

Since the relocation of BCRI turnaround time for pesticide tests on fruit and vegetable samples from Sydney's Flemington Markets is now only 10 working days compared with up to 3 months previously.

4. Planning

Generally (Executive Summary Page v)

The Department has had formal, documented Corporate Planning procedures since 1989 and of a less formal nature since the mid 1960s.

These procedures, with the assistance of the Government Offices of Public Management and Strategic Planning, have been continually refined to the extent that now, broad corporate goals and directions are set for three year periods. These broader plans encompass objectives, inputs, outputs and outcomes for each of the Department's major programs. Performance of the Department in achieving these targets is formally monitored in the following ways:-

- *The Department's audited Annual Reports that are tabled in Parliament each year.*
- *NSW Agriculture has won silver and bronze medals in the prestigious National Annual Report Awards Competition conducted each year for both private and public organisations throughout Australia. Over the past two years the NSW Department of Agriculture and State Forests are the only State or Commonwealth Government Departments of their type to win such awards within the Agricultural category.*

One of the important criteria for these awards is the use of objective, well presented performance indicators.

- *Annual Strategic Plans for Divisions, Programs and Sub Programs. These plans present the finer details including milestones, timetables and individual responsibilities for the implementation of actual activities.*

Audit acknowledges that such planning "appears to work well... to deliver program objectives". What is not recognised is that these objectives are based on the delivery of Corporate Goals

- *Annual Program Statements to the Premier's Department and Treasury that include trends over four years in key performance indicators.*
- *Individual Annual Performance Assessment of all Department Executives, Managers, Professional and Technical staff. This scheme has been in operation for over 10 years and is in the process, with the assistance of Unions, of being extended to include all Department staff.*
- *Salary progression of staff, in accordance with industrial instruments, is based on the performance of individual staff in meeting the Department's key corporate goals and objectives.*

A further illustration of my own and the Department's attention to explicit long term strategies is in my paper published in the January 1996 edition of the Australian Journal of Agricultural Science entitled "Future Directions in Australian Agriculture".

The audit report itself also recognises the 1996 Departmental publication "Government & Agriculture - a partnership for the future" as another long term planning example.

Such planning procedures are never easy in an environment where resources are always subject to significant budget change by Governments. Also it is not always easy to legitimately quantify, in numerical terms, the causal relationships between Departmental activities and their true impact on the economy and community.

For the last 12 months the Department has also been working with the Council on the Cost of Government in a service wide project entitled "Indicators of Service Efforts and Accomplishments". As part of this work the Department is refining and developing new performance indicators in the following broad areas:-

- *Economic development*
- *Sustainability*
- *Quality assurance*
- *Customer service*
- *Rural equity in Government services.*

5. Internal Control (Executive Summary Page vi)

The new computerised financial information system, called SAP, and the new human resource information system, called Aurion, are now in the process of being installed. The Department competed, unsuccessfully, for years for the funds to implement these systems. It was only in the first year of the present Government that funds were provided. Both systems are on the Government Selected Applications Systems approved list.

6. Government Outlays & Farm Output (Page 2)

Use of this table from an unpublished draft report by the Industry Commission is misleading in the context of this audit.

- *Of the \$274m “Government outlays to agriculture” in 1994/95 only \$158.2m was appropriated to the NSW Department of Agriculture in consolidated recurrent funds from the NSW Government. This represented only 2.7 percent of the value of NSW farm output - about half the total in the table. This appropriation also represents less than 0.8 percent of the total NSW Government budget.*
- *“Farm Output” is an inadequate measure of the economic contribution made by agriculture and this Department. Our food and fibre industries contribute over 25% of our merchandise exports and generate four jobs in the “off-farm” sector for every*

In addition, an increasing proportion of this Department’s expenditure is spent on important “off-farm” initiatives for the rural community in general, other sectors of the food and fibre industries and meeting other community service obligations such as animal welfare.

- *1994/95 was a very atypical year. During 1994/95 NSW farmers experienced the worst drought for 25 years plus very depressed prices for wool and beef - two of the most important NSW rural industries. The drought not only depressed farm output but drastically increased the need for extra Government and Department expenditure to be directed to drought assistance.*
- *All of the above factors distort the table’s comparison against NSW and the importance of this Department.*

7. 1995 Budget Observations (Page 13)

The Audit Office is not convinced that a redundancy program of the scale proposed was needed. It suggests that attrition of about 100 per year and the presence of some 600 temporary staff could have made the savings. Neither suggestion is applicable to the problem faced by the Department.

Attrition takes place during the year, not at the start of the financial year. So savings are not equivalent to average annual salary in the current year, only in following years. A person on an average salary of \$35,000 leaving on 1 June provides only \$2,917 of saving from attrition in the current year. Of course, there is no saving if the job must be refilled, and that is usually the case. A consultative process will always end in arguments to keep a job rather than do without it.

In addition, attrition will not work at all if it is known that a combination of attrition and redundancy is required to meet a budget cut. It would be widely known if the consultative processes

recommended elsewhere in the Audit report were adopted. Who would be foolish enough to resign knowing that a redundancy package is on offer because the Department must meet a high cut target?

The assumption the report makes does not account for the particular factors surrounding an organisation facing a massive budget cut. It is true that some of the cut was later rescinded but the Department had no way of foretelling that.

Temporary staff are, for the most part, not funded from the Consolidated Fund. It was the Consolidated Recurrent Fund which was to bear the cut. Putting off temporary staff would have simply increased our costs as Treasury would not fund redundancy for other than Consolidated Funded staff.

Temporary staff are mostly employed on work for which the Department is contracted to provide a result. So a further incentive to keep those people on was to meet contractual obligations. Transfer of permanent staff to vacant temporary jobs was done as a short term measure, but this is a self-limiting strategy and one which would inevitably lead to industrial unrest.

**8. Less Tangible
Costs of
Redundancy**
(Page 23)

While it is true that many good staff took redundancy it should also be pointed out that 76 percent of staff stayed. The services of these experienced and highly productive officers have already been complemented by the successful recruitment of over 250 highly qualified new graduates and support staff.

**9. Redundancy
Observations**
(Pages 23 to 25)

See comment No. 2.

The Department knows that a planned, targeted approach to redundancy is better than a rushed one. The budget cut was announced by the Government on 10 October 1995 (well into the financial year) and redundancy approved part way through December when half of the first year was gone. Savings were required for the full year and the \$35 million target was a formidable one.

With regard to the Minister's Press Statement of 11 April 1996 I was able to assure the Minister that all services classified by the Government as essential would continue to be provided by a reallocation of resources and this has proved to be the case.

The audit report produces no evidence to support the contention that “(redundancy strategies) ... are inappropriate ... because the people who tend to go are not the people the organisation wants to lose”. In the first place, the Department did not want to “lose” anyone. It simply used the only cost cutting tool left to it. Secondly, and without evidence, the report condemns those staff still with the Department as having less value than those who left. The staff who remain with NSW Agriculture form the basis of an extremely professional organisation. These staff are highly respected by myself and the Executive.

10. 1990 Cost Benefit Study of BCRI Closure
(Page 28)

It is worth noting, as the Audit does, that the Coopers & Lybrand report frequently referred to, did not attempt to assess the scientific merit of the proposal to close the Biological and Chemical Research Institute in 1990.

11. Comparison of Closure of BCRI
(Page 30)

The decision to construct EMAI was made during the mid 1980's. It effectively utilized rural lands placed under a heritage order.

The decision to close two Veterinary Laboratories (Wagga Wagga and Armidale) and transfer functions to EMAI was based on providing increased throughput and efficiencies of identical services formerly carried out separately at the smaller regional laboratories.

This is a contrast to the decentralisation of BCRI where the relocation of complete functions to regional institutes was based on focussing research on industry needs.

12. Government Directive to Close BCRI
(Page 30)

See comment No. 3.

13. 1995 Decision to Decentralise BCRI
(Page 33)

The audit report says that the sale of BCRI could be used to offset the budget cuts in 1996/97 and 1997/98. The budget cut was to recurrent expenditure. Any income from an asset sale would be a one-off item. In fact, in advising the changed cut to recurrent expenditure in November 1995, the Treasury said “In addition, it is understood that it was agreed at meetings between the Treasurer and the Minister for Agriculture that the savings strategies will result in asset sale proceeds of \$13 million in 1996/97 and \$11 million in 1997/98 being returned as Consolidated Revenue”. “Being returned as Consolidated Revenue”, means being sent to Treasury; it does not mean being retained by the Department.

14. Sale of BCRI - Disposal Difficulties (Page 35) *See previous comment No. 3. Sale of the laboratory and crown land component of the site to the University of Western Sydney was announced by the Government on 18 February this year. This arrangement, while returning the Government over \$6 million for only a portion of the site, will provide the new Parramatta campus of this university with valuable biological science facilities adjacent to the previous Rydalmere Hospital campus of the University of Western Sydney.*

15. BCRI - The Situation Now (Page 37) *BCRI has not simply been closed. It has been sold to the University of Western Sydney in an arrangement brokered by State Property and the NSW Minister for Public Works & Services, the NSW Minister for Education and Training and the NSW Minister for Agriculture.*

See previous comments No. 3 and No. 14.

16. Corporate Planning (Pages 45 & 50) *As previously pointed out the audit report has failed to recognise that the Department's corporate strategies are the implementation and collective outcomes of the Department's Program strategies that are clearly presented in summary form in each three year Corporate Plan and in more detail in Annual Program Strategic Plans.*

The claim by the Audit Office that a lack of corporate strategies means the corporate planning process has not provided the longer term framework for investment decisions is incorrect. The "Fundamental Review" (referred to on Page 43) established the basis for the Corporate Plans 1991-1994, 1992-1995, 1993-1996 and 1994-1997. This planning process undoubtedly set the scene for this six year period and changed the focus of the Department significantly.

This framework, that was published in 1991, has facilitated investment in the Department by both the NSW and Commonwealth Governments and industry Research and Development Corporations plus the establishment of cost recovery and commercialisation guidelines.

I look forward to the inclusion of these and the Minister's comments in the final audit document when it is tabled in Parliament.

Yours sincerely

(Signed)

**K P SHERIDAN
DIRECTOR-GENERAL**

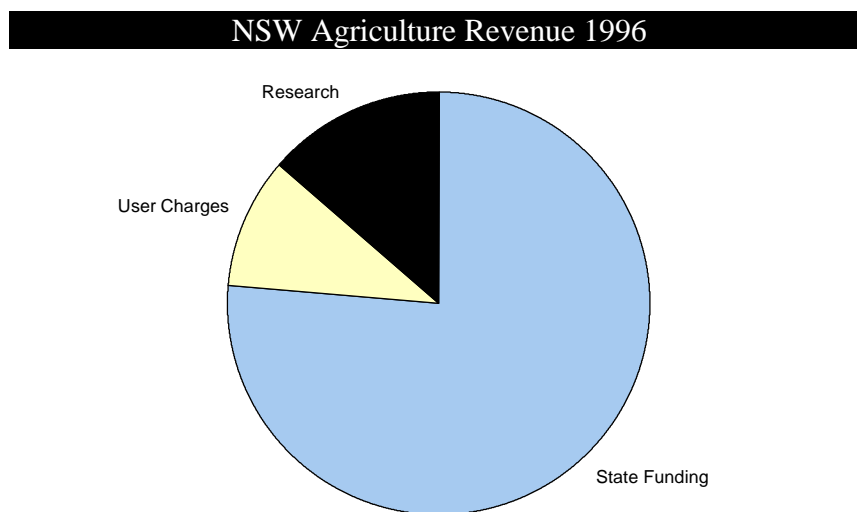
1 Introduction

1.1 The Functions of NSW Agriculture

NSW Agriculture’s mission is *helping the NSW food and fibre industries to be economically viable and environmentally sustainable*.¹ It does so through the services it provides to agricultural industries and rural communities.

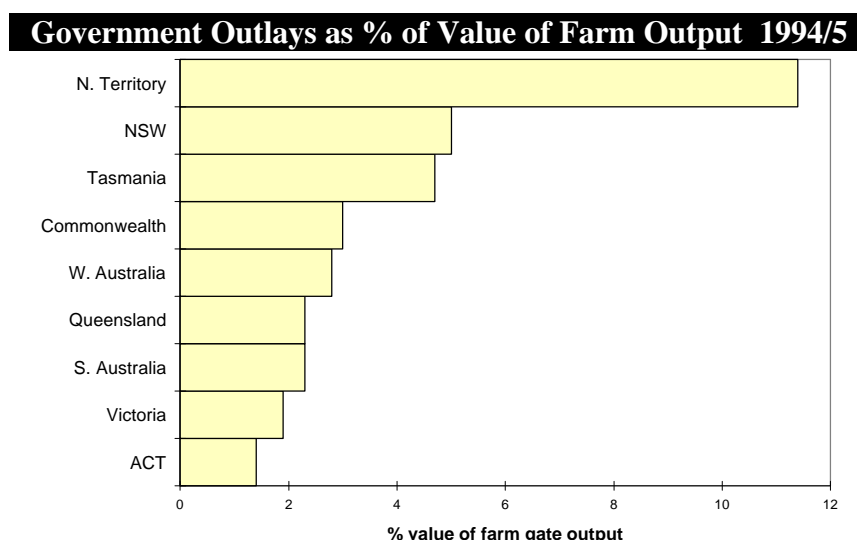
Expenditure And Revenue

The development and delivery of these services now costs \$226m pa, with nearly a quarter recovered from research revenue and user charges.



Source: NSW Agriculture Annual Report 1996 Financial Statement p60

Expenditure in NSW on these services has been higher than in other States and from the Commonwealth.



Source: State Territory and Local Government Assistance to Industry, Industry Commission 1996, App. 2 Assistance to Agriculture, Table A2.2

¹ NSW Agriculture Annual Report 1995/96, p1

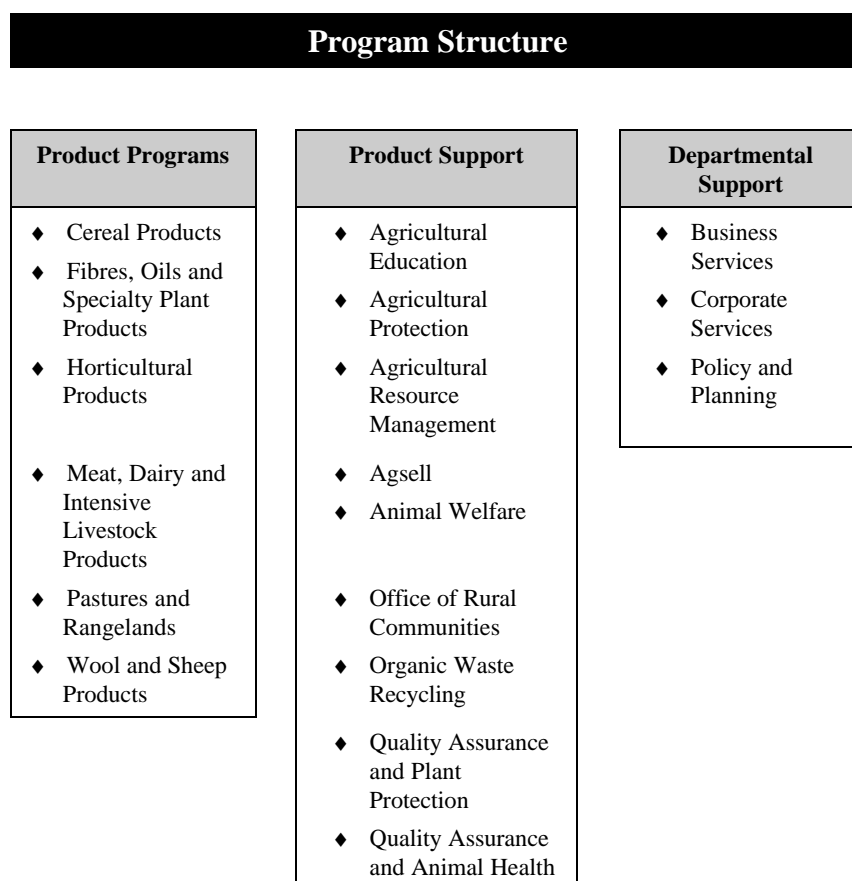
Major Functions The services (and staff) comprise three major functions:

- research
- extension and education
- regulation

supported by policy advice, management and administration. Research is the largest. It is closely linked with extension in service delivery - putting research findings into practice. Together they comprise the majority of the Department's expenditure.

Organisation Structure

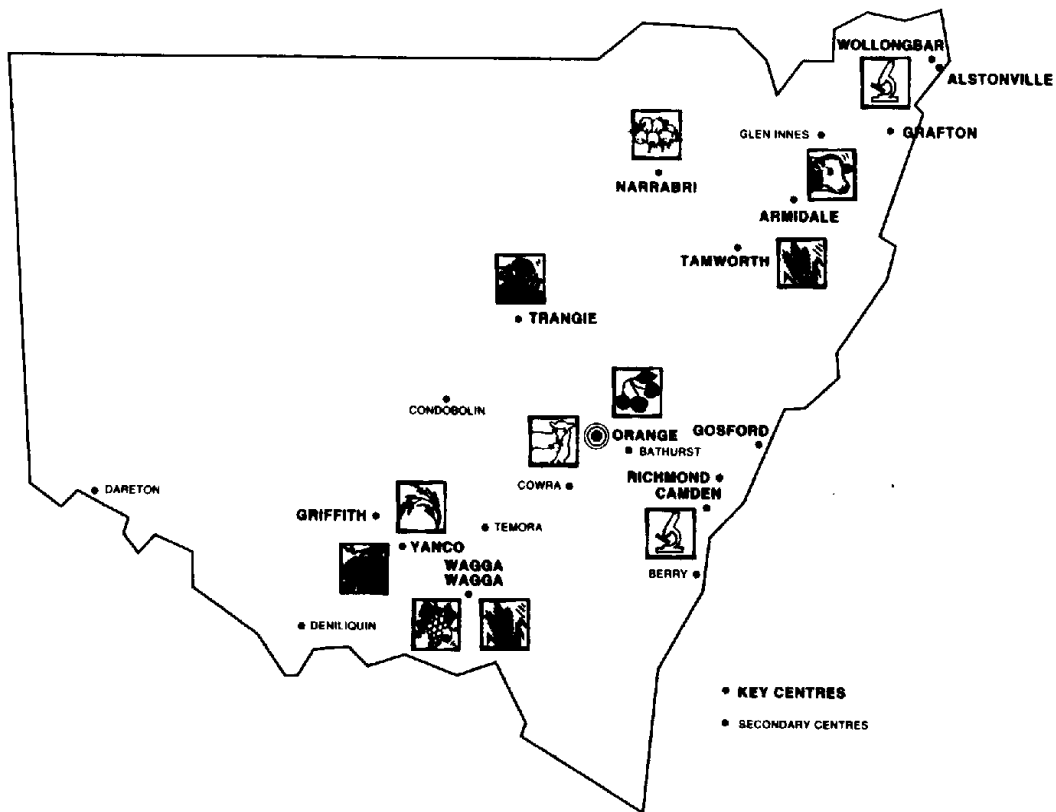
Since 1991, these functions have been integrated along product lines. So, for example, all research, extension and regulation related to cotton is the responsibility of one manager. The aim is to bring together the various Department's services and focus them on achieving tangible benefits for, and closer links with, the specific agricultural industries they support. The chart below outlines the major product/programs in the structure.



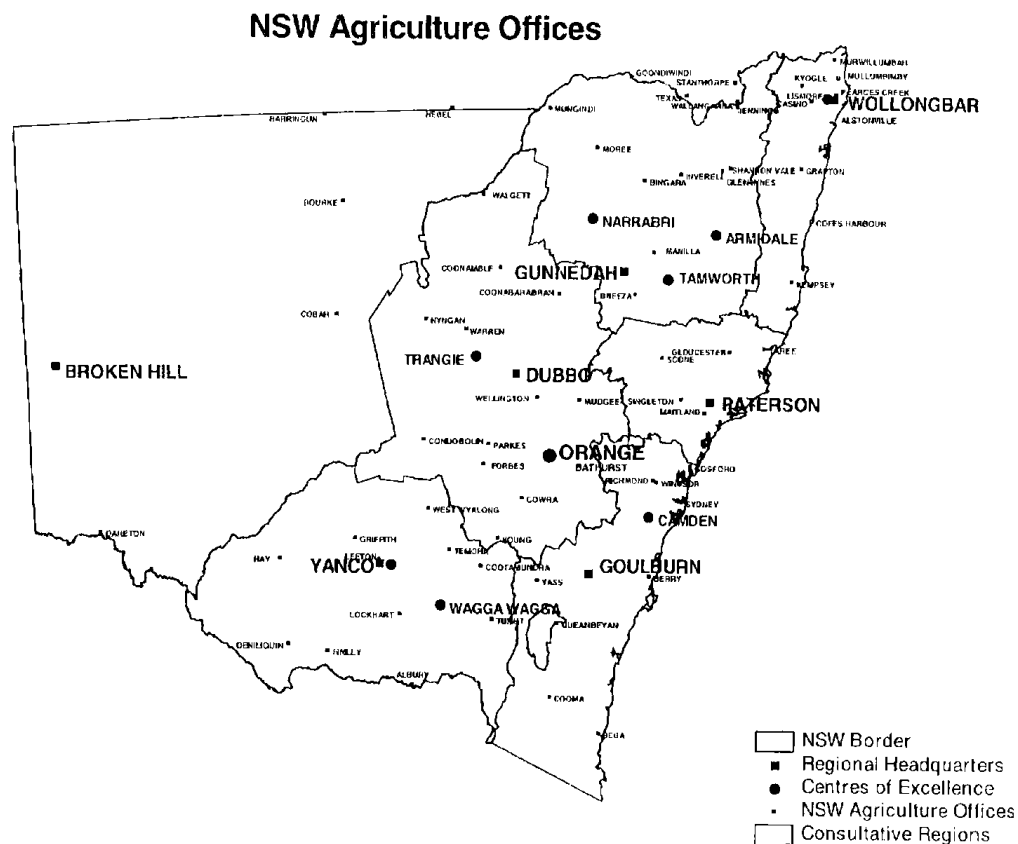
Distribution Of Staff And Services This integration by program draws together services which are often widely dispersed across NSW.

- **Research and Diagnostic Services** are provided from 20 research stations, laboratories and institutes. Many have grown up to help the development of local agricultural products, like cotton at Narrabri. Others have a statewide catchment.

NSW AGRICULTURE RESEARCH CENTRES



- **Extension and Education** are more widely dispersed. The whole state is divided into agricultural districts each with an establishment of advisory and support staff, and in most cases an office, as the following map indicates. There are also two agricultural colleges serving the state as a whole.



- **Regulatory staff** are concentrated in farming areas where there are particular pest and disease control problems (eg the cattle tick quarantine area on the Queensland border, and the MIA fruit fly quarantine area), or at markets (eg Flemington in Sydney). They are supported by the diagnostic work of research stations and veterinary laboratories.
- **Management and Policy staff** are concentrated in Orange after the Department's headquarters moved there in 1991 from Sydney. **Administrative functions** are currently being consolidated into four regional centres co-located with research stations (at Camden, Wollongbar, Yanco) and at Orange HQ.

Long Term Perspective

The Department's services have developed over one hundred and seven years. Their long history reflects the long-term and complex problems that agriculture has to deal with - in disease control, crop development and environmental degradation for example; and the long timescales required for developing and implementing solutions.

Short-Term Perspective

The long-term payback for much of its work contrasts with the shorter term Parliamentary and financial cycles under which the Department operates; and with the very short-term responses required from time to time to meet drought, infestation and other emergencies.

Increasing Pressure On Resources

The tension between the long-term and short-term has been brought into sharper relief in recent years by the increasing pressure on resources, both in NSW and elsewhere. With that pressure has come a questioning of the role of government in agriculture generally. As the Director General of NSW Agriculture said recently:

In the past, Australia's favourable trading position with respect to agricultural commodities tended to result in many of the services being provided without questioning by either government or industry.

However, as Australia's international marketing position has become more competitive, industry is now demanding that government-imposed costs and taxes be reduced.....

....More and more the role of government is to provide those services where there is market failure or where the private sector is unable or unwilling to meet the need.²

How the planning and management arrangements have responded to these changes is the focus of this audit.

² Future Directions in Australian Agriculture, KP Sheridan in Agricultural Science, Vol 9, 1996.

1.3 The Audit

In September 1996, the NSW Legislative Council requested:

...that the Council on the Cost of Government and the Auditor General inquire into and report on the operation of New South Wales Agriculture and in particular the following matters:

- (a) leadership and future direction;*
- (b) administration*
- (c) management and provision of services;*
- (d) financial affairs.*

The Audit Office had already identified as part of its financial audit responsibilities the need to examine the 1995/96 budget-making process in the Agriculture portfolio, and the costs and benefits of the changes that followed. These were combined into a performance audit with those issues from the Legislative Council that fell within the Audit Office's remit.

Audit Scope

The performance audit has examined management processes in NSW Agriculture and particularly those concerned with planning and internal control.

Under planning, it has looked at the processes used to develop and implement:

- corporate plans
- strategic plans
- capital and resource plans
- budgets
- individual work plans.

Under internal control, it has looked at how the Department ensures its planning objectives are met. This covers:

- management structures
- management reporting of organisational performance
- individual performance management systems
- internal reviews, including internal audit

and the information systems that support them.

Cost Of Audit The total cost of the audit can be dissected as follows:

Interviews and data collection	\$55,700
Analysis and report writing	46,000
Consultation and tabling	40,000
Total costs	\$141,700

Acknowledgment The audit could not have been completed without the co-operation of staff from NSW Agriculture and from other State Agencies. Their assistance is gratefully acknowledged.

2 Budget Making in 1995

2.1 The Government's Initial Proposal

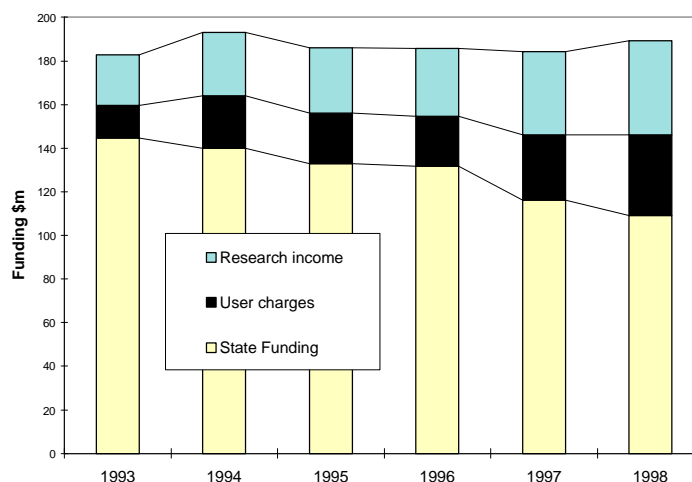
The State Government's budget-making timetable provides around three months between departments being informed of proposed funding allocations and the budget being announced in parliament. (See example in Appendix 1)

1995/96 Cycle

So, in the 1995/6 budget cycle, the Minister for Agriculture received the first indication from Treasury in June 1995 of savings measures under consideration for the Department's budget allocation, amounting to a \$35m reduction in recurrent funding between 1995/6 and 1997/8. This would accelerate the downward trend in allocations since 1992/3.

The Treasury indicated that the savings could be met primarily by increased cost recovery in extension and research. This implied a significant increase in the rate of revenue growth from these sources over that in recent years, as the following graph indicates. It also envisaged some rationalisation of existing services and research activities.

Proposed Growth in User Charges and Research Income



Source: July 11, 1995 letter, NSW Agriculture Financial Statements for 1991-1996

Feasibility Of Treasury's Proposals

In his response in June, the Minister for Agriculture questioned the viability of these proposals to achieve the savings target required. For extension services, he questioned the political feasibility of increasing charges to farmers suffering under the effects of the drought. For research, he questioned whether increasing charges would generate additional revenues, given the competitive national market for limited industry funds.

Decision Of Government

In July the Government confirmed the savings targets for Agriculture and the strategy as proposed by Treasury, based primarily on increased cost recovery. However, the Minister was given flexibility to move between the savings options, provided that the total savings were achieved.

2.2 The Department's Alternative**Continuing Concerns**

The Minister remained concerned about the capability of the cost recovery strategy to deliver the savings required by the Government on the timetable provided. He asked his Department to provide him with details of what other measures might be used to ensure the \$35m target was met.

Department's Proposals

In the Department's view, the savings from increased cost recovery were unattainable. Meeting the savings targets would require reductions in expenditure, involving substantial cuts in jobs and closure of facilities:³

NSW Agriculture's Assessment (August 1995) Of Measures Needed To Reach Savings Targets	
1995/6 \$7m	Retrenchment of 144 staff Closure of 4 vet laboratories and BCRI
1996/7 \$28m	Retrenchment of another 416 staff Closure of 11 smaller research stations
1997/8 \$35m	Retrenchment of another 118 staff

Revised Strategy Agreed

The Minister conveyed this view to the Government at the beginning of August 1995. Details of the job losses (and redundancy arrangements) required were outlined by the Minister in a letter to the Treasurer dated 4 August 1995. The letter indicated that the Department would need to lose 777 jobs to achieve the desired cuts. Following discussion, the Government agreed to provide additional funding for redundancies.

³ letter of 4/8/95 from Minister of Agriculture to Treasurer

In September there were further amendments. The period to implement the funding cut was extended. The final budget also allowed the Department to use asset sales to substantially offset recurrent expenditure savings targets, in the second and third years only, thus allowing more time for other measures to take effect.

Revised Savings Timetable Agreed September 1995	
1995/6	\$7m savings
1996/7	\$15m savings plus revenue from asset sales of \$13m
1997/8	\$24m savings plus revenue from asset sales of \$11m
1998/9	\$35m savings

Note: In addition the Department was already expected to achieve a saving in corporate services of \$1.25M in 1995/6 and \$3.6M in 1996/7 onwards.

Closure of BCRI

The revenue from asset sales was to come principally from the closure of the Biological and Chemical Research Institute (BCRI) at Rydalmere, whose functions were to be relocated. The Department expected their relocation would not only generate revenue from selling the facilities but would also yield increased industry funding because of the closer proximity of researchers to clients and to Cooperative Research Centres⁴.

On October 10, the revised strategy was announced in the budget, including the closures and the relocations.

⁴ Director General's submission to Standing Committee on State Development 25/1/96, quoted in Standing Committee Report on Rationales for Closing the Veterinary Laboratories at Armidale and Wagga Wagga and the Rydalmere Biological and Chemical Research Institute, 1996, p110

2.3 Observations

- There was a significant difference of opinion on the feasibility of the Government's initial strategy to reduce funding for NSW Agriculture.
- The Government's initial strategy was primarily one of increasing the level of cost recovery. The Minister and the Department believed that this was not a viable option to achieve the level of savings required and proposed a program of retrenchments and closures instead.
- A combination of these strategies was agreed by Government and announced in the October budget, leaving flexibility with the Minister and the Department in the mix adopted to best meet the savings targets required.
- In practice, the primary savings measure was a redundancy program supported in the short-run by asset sales.
- The Audit Office is not convinced that a redundancy program of the nature and scale proposed was needed. The Department's attrition rate of around 100 staff each year and the presence of some 600 staff on temporary contracts offered similar scope for significant staff reductions, short of redundancy.
- The redundancy program and facility closures were planned and introduced rapidly with little time for the appraisal processes that the State's planning guidelines would normally expect. The next chapters therefore examine these initiatives, their justifications and their outcomes, in more detail.

3 The Redundancy Program

3.1 NSW Redundancy Policy and Procedures

Role Of PEO The Public Employment Office (PEO) was established to advise Government on policies and direction in relation to public employment and industrial relations in the NSW Public Sector. This included policy and direction in relation to redundancy (but not responsibility for assessing the appropriateness of specific redundancy proposals).⁵

Revised Guidance 1995 The Government's policy in managing 'displaced persons' was set out in new guidelines⁶ issued by PEO on 1 November 1995. This amended previous guidance and confirmed the advice that had been given to departments by PEO since 1994.

The guidance outlined the planning process for any redundancy program:

Systematic Planning Process *Decisions on numbers and deployment of employees should be reached through a systematic process that takes account of the agency's current and future plans and functions, budget, customer service delivery obligations, flexible employment options and good employment practice.*⁷

Audit Criteria The Audit used these guidelines as criteria against which to assess the planning and management of NSW Agriculture's redundancy program, along with subsequent guidance on the sort of plans that the systematic process should produce. A plan would include information on:

Detailed Plans

- positions and classifications subject to redundancies
- locations relevant to such positions
- services and/or functions which are to be affected.
- the future organisation structure⁸

⁵ Since late 1996, the PEO's responsibilities have been taken over by the Public Sector Management Office in the Premier's Department

⁶ Premiers Memorandum No. 95 - 41.

⁷ Interim Guidelines for Managing Displaced Employees, Public Employment Office, Nov. 1995.

⁸ Summarised from Premiers Memorandum No. 96-5, p25

3.2 NSW Agriculture's Redundancy Plan

Initial Proposals It was in July 1995 that the scale of the budget cuts for NSW Agriculture was confirmed. In August, the Minister informed the Treasurer that to achieve the savings would require a substantial loss of jobs (a figure of 777 was mentioned, representing 27% of the department's permanent workforce) and the closure of facilities. The Department therefore sought a targeted, forced, redundancy program to achieve these reductions within the timescale expected.

However, Government policy allowed only voluntary redundancy. Therefore an across-the-board program was discussed, and apparently agreed in principle, with the Public Employment Office in October. In a letter to the Commissioner of PEO, the Director General said:

Redundancy To Be Offered To All Staff *Further to our discussions yesterday I wish to advise that I will be offering voluntary redundancy to all staff of NSW Agriculture. It is anticipated that approximately two to three hundred staff might accept the offer.....*

I have discussed this matter with my Minister who agrees with the proposal.

No written details of the specific posts to be made redundant, their locations or grades, were requested or given, although PEO was informed orally and in general terms of the Department's functions and their distribution.

PEO Approval It took two months for the PEO to approve the details of the NSW Agriculture across-the-board redundancy proposal, adding some exclusions (senior executives, temporary staff and casuals) and conditions (full union consultation). This approval followed discussion between the Commissioner of PEO, representatives of the Department of Agriculture, their Minister's Office and the relevant unions.

Variations From Policy Guidelines In the intervening period, the PEO had issued new guidance on redundancy arrangements. This differed in two respects from the arrangements approved for the Department of Agriculture:

- there was no detailed plan of which posts were to be made redundant, although the guidance recommended this
- it was an across-the-board scheme although the guidance states:

There are to be no forced redundancies, nor is voluntary redundancy generally to be offered to all employees within an agency

In discussion with the Audit Office, the PEO explained the reasons for this as follows:

Reasons

- **on the across-the-board nature of the scheme**

Where there are substantial and widespread redundancies to be made, allowing expressions of interest across-the-board provides departments (and staff) with the greatest opportunity and flexibility to move and match staff to the posts remaining and so to achieve the reductions quicker and with greater cooperation. Use of the word “generally” in the guidance did allow for exceptions. Agriculture was treated as such.

- **on the lack of details of posts to be made redundant**

It was not the PEO’s responsibility to examine the merits of making specific posts redundant, nor the adequacy of the planning that departments undertook to identify redundant posts. PEO only needed to be satisfied that there were significant numbers of jobs in locations and specialist occupations where there would be little prospect of redeployment opportunities outside the department. NSW Agriculture was able to do this orally (based on the number of specialist scientific staff and rural locations outlined in the Department’s letter to the Minister of August 4).

**1995/96 Savings
Achieved Without
Redundancy**

The redundancy program was approved by the PEO on December 4. Earlier that week, the Director-General confirmed in a letter to the Secretary of the Treasury that NSW Agriculture would be able to meet its 1995/6 savings target of \$7m (plus \$2m savings from corporate services) through one-off measures, without redundancies. However, it also stressed the urgency of implementing the redundancy program to secure future year savings.

On 11 December, the Director General circulated details of the redundancy program to all staff, allowing them until 31 March 1996 to indicate an “expression of interest”.

3.3 Observations on Redundancy Planning

Limited Assessment

- In August 1995, NSW Agriculture itemised over 700 retrenchments and 11 facilities to close in order to meet its three-year savings targets.
- Government policy precluded these from being achieved by forced redundancies, so an across-the-board voluntary redundancy program was implemented instead. Even this was broader than the Government's guidance recommended, but it was approved by the PEO because of the size and the distribution of the job reductions the Department indicated were necessary.
- The Department assessed that the number of redundancies required would be far greater than the number of staff expected to express an interest. As a result, the Department saw little point in undertaking the detailed assessment of future service arrangements recommended in Government guidance as a basis for decisions on which posts could be made redundant and which could not. If it was to meet its savings targets the Department felt it would have to offer redundancy to virtually all who expressed an interest, even if this meant losing staff from functions that would still be needed in the future, smaller, organisation.
- The lack of such a plan meant that there was no comprehensive basis against which individual expressions of interest and re-deployment possibilities could be assessed.

3.4 Managing the Redundancy Process

After the initial call for expressions of interest, the Department set up systems to monitor uptake, assess replies and make offers quickly where appropriate.

Generally speaking it is hoped that an expression of interest will take no more than 2 weeks to process. This will be dependent on the number of expressions of interest that are received.

Once a formal letter of offer for voluntary redundancy goes to the staff member it is generally expected that staff will be required to leave within three to four weeks of the offer being made.⁹

⁹ Circular 95/163, NSW Agriculture, 19 December 1995

Rapid Response The first offers were made (and accepted) before the end of December. In early January, the Director-General reported:

A considerable number of staff have already expressed a firm interest in voluntary redundancy and more are expected.

As the numbers leaving grew, so did the headlines, for example:

Increasing Public Concern

900 Jobs To Go As Rural Sector Hit By Cutback
(Sydney Morning Herald 31 January 1996)

Bush Backlash - Orange Rally Over Agriculture Cuts
(The Land 22 February 1996).

There was particular concern in rural communities at the departure of front line extension officers - District Agronomists, District Horticulturalists, District Livestock Officers and Veterinary Officers - even though this group had no higher take up of redundancy than others (22% loss compared with an average of 24%).

Budget Cuts Rescinded In March

By 21 March, 384 offers of redundancy had been made. On that day the Government announced its new initiatives in 'Government & Agriculture - A partnership for the future' and rescinded the budget cuts planned for 1996/7 and beyond, leaving a recurrent saving of \$9m for the Department to achieve (compared with \$30m previously).

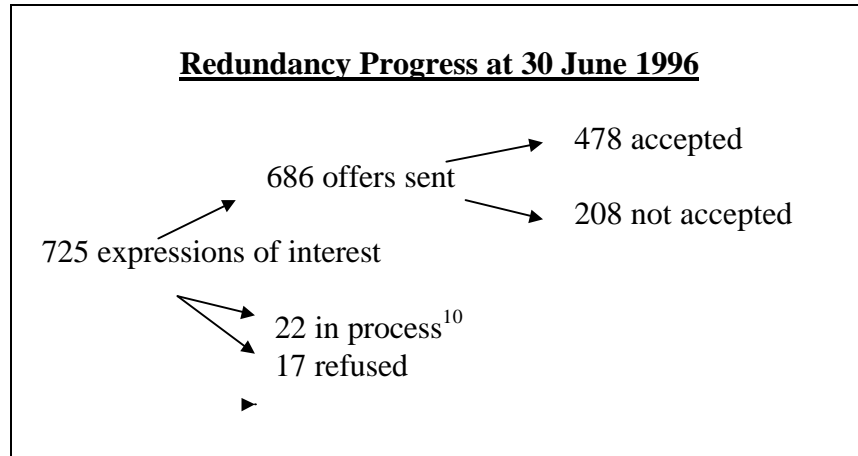
Voluntary Redundancy Continues

At the same time the Minister confirmed that the voluntary redundancy scheme deadline of 31 March (for expressions of interest) would be honoured. Another 302 offers of redundancy were sent out after 21 March to those who had responded by the deadline, as the following chart indicates.



Source : A progress report from mid 1996

By 1 April the Department had received 725 expressions of interest. The outcome by the end of June 1996 was as follows:



Some further acceptances are likely which will bring the total up to around 500, depending on the decisions yet to be made by staff at BCRI and elsewhere whose jobs are being relocated.

Few Expressions Refused

The very high proportion of offers to expressions of interest reflects the pressure for savings that the Department felt it was under. By contrast where the scale and time pressures are less, as in the current redundancy scheme operated by the Department of Land & Water Conservation, the majority of expressions of interest are not taken up because line managers do not agree that the positions can be dispensed with.

The Decision To Make An Offer

In April, after the redundancy deadline had expired, the Minister issued a press release on the process used to decide whether offers would be made. It included the following:

Mr Amery said it had been his clear position since the offer of voluntary redundancy was made that no redundancy would be granted if services to farmers would be at risk.

“Before any application for redundancy is granted an assessment is made of the impact of staff leaving the Department.”

“If the service can’t be maintained the application will be

¹⁰ The 22 in process subsequently received offers of redundancy.

¹¹ Media Release, Minister for Agriculture, 11 April 1996

The Audit Office has seen no criteria or plan to support such an assessment process beyond the outline of the scheme approved by the Australian Tax Office (to be eligible as an early retirement scheme). From discussions with staff involved it is clear that the Department was predisposed to make offers to all eligible staff who expressed an interest because of the size of the budget cuts required. Line managers themselves were not generally consulted about the impact of losing individual members of staff before offers were made. It is difficult to see how, in the absence of these processes, the approach outlined by the Minister could have been followed.

**Planning
Recruitment**

However, as soon as the Government rescinded its future year budget cuts, managers were consulted on their priorities for restructuring and resourcing their programs in the light of the new circumstances. These were presented to a special meeting of senior management in May, after which priority recruitment for 233 positions was approved, including some, the most urgent, where recruitment had already begun. They included extension positions, where rural concerns were greatest, and some research and support posts essential to the Department's restored structure.

All these positions were advertised during the period 26 April to 16 August 1996 and recruitment continues.

**Redundant
Positions Cannot
Be Refilled**

Under the terms of the Government's voluntary redundancy offer, positions vacated cannot be refilled. Duties performed by these positions must be abandoned or undertaken in some other ways. The Director General made this clear to all staff in the early part of 1996.

These conditions remain for all recruitment after the budget cut was rescinded. Given the lack of a plan for the redundancy program, and its scale (and the scale of the recruitment which followed) this was inevitably going to be difficult. Much of the pressure to rescind the budget cuts came from communities who wished to see their previous service restored.

As a result, many of the "new" positions appear to perform very similar functions to the old ones (eg trainee extension officers replacing extension officers, farm supervisors replacing farm foremen, etc). And staff interviewed as part of the audit confirmed that little more than name changes had occurred in some cases.

3.5 Costs of the Redundancy Program

Direct Costs

The Department's assessment of the cost of the redundancies during the 1995/96 year was \$9.8m. (excluding extended leave, recreation leave and leave loading payments). Associated administrative costs increased this to \$9.9M. Further costs are likely in 1996/7 when staff at BCRI decide on the offers made to them. The number of redundancies is expected to exceed 500, in which case direct costs will exceed \$10.4M.

Less-Tangible Costs

There are less-tangible costs as well. Training new recruits takes time, both in developing and implementing new training programs, and in closer supervision. In many specialist positions it will be some time before new staff are fully productive.

The Audit Office spoke to a range of staff during November 1996. "A lot of good staff left" was the sentiment most frequently expressed. All commented on the disruptive effect that the last 18 months had had on the staff that remained, on clients and on planning. "The Department did nothing else for months."

There is always some loss of productivity in the short-run, even in best planned of redundancy programs. With the additional burden of relocation, recruitment and training in this case, the total impact on the Department in indirect and less-tangible losses may well double the direct costs.

Less Tangible Benefits

Benefits that are not easily measurable include the ability to recruit staff who may have better skills for the future needs of the Department.

3.6 Observations on Management of Redundancy

- The Department sought to process expressions of interest and redundancy offers quickly, and succeeded. This approach quickly established precedents and an expectation amongst staff (and unions) that all expressions would receive an offer.
- Given the scale of the job losses the Department felt it required, that indeed was what happened. In the event, only 2% of expressions of interest did not receive an offer (17 out of 725). The across-the-board request for "expressions of interest" was, in effect, an across-the-board "redundancy offers" program.

- This contrasts with the detailed justifications normally required for new posts before recruitment can take place. It also does not match the Minister's stated understanding of the process, that applications would be rejected if services to farmers would be at risk.
- At the time the budget cuts were rescinded in March 1996, the Department had made 384 offers of redundancy and most had been accepted. The resultant financial saving then exceeded the Department's new financial target. Nevertheless, another 302 offers were sent out subsequently. The Department (along with its staff and unions and the Minister) felt that, in order to preserve sound industrial relations, it was committed to the program, even though this would incur additional costs in redundancies and replacement. The redundancy program, originally aimed at cost-savings had suddenly turned into a liability.
- At the same time, a major recruitment exercise was begun to restore functions depleted by the redundancy program (as well as to staff some new functions).
- The redundancy program itself has incurred one-off costs for the NSW taxpayer of at least \$10.4M directly. There are less tangible costs as well in recruitment, training and short-term loss of productivity.
- The lack of a planned, targeted approach to redundancy; its rushed implementation and the rushed recruitment program which followed; suggest that the potential benefits of redundancy to support wider organisational change will not have been realised. The less tangible benefits that may come in time from a newly recruited labour force need to be set against the less-tangible costs that the Department and its staff have suffered over the past 18 months.
- Redundancy strategies are long-term arrangements which need to be carefully planned and carried through in conjunction with long-term changes to an organisation's systems and structures. They are inappropriate when universally applied as a short-term budget cutting measure because of their inflexibility and their indiscriminate effect - the people who tend to go are not the people the organisation wants to lose.

4 Closure of BCRI

4.1 Decision to Close BCRI

In its budget statement on 10 October 1995, the Government announced plans to close the Biological and Chemical Research Institute (BCRI) at Rydalmere, along with two veterinary laboratories at Armidale and Wagga, and relocate their functions to other centres.

Reviews Of BCRI BCRI at Rydalmere had been the centre for state-wide research and diagnostic services on plant diseases and insect pests since it was opened in 1961. However the Department had been considering the future of functions at BCRI for some time. In 1980, plans to expand the Rydalmere facility were discontinued. In 1990, an internal study recommended

A long term strategy should be adopted aimed at relocating all Rydalmere staff to Regional centres within 10 years¹².

1990 Cost-Benefit Study The Department accepted this recommendation and began the planning and appraisal process required to obtain capital funding from the State Government. It commissioned a cost-benefit analysis. This report, which did not attempt to assess the scientific merit of the proposal, recommended against decentralisation of BCRI because the quantifiable benefits of the move were outweighed by the costs involved, under all likely scenarios. The Government accepted that recommendation and no capital funding was forthcoming. BCRI remained at Rydalmere.

Budget-Making In 1995 The prospect of a major rationalisation of services in 1995 raised BCRI's future again. It was one of the first facilities identified for closure by the Minister in his letter to the Treasurer of August 4, which outlined the Department's retrenchment proposals.

The Government's decision to decentralise BCRI in 1995 was subsequently justified on three grounds.

- It was part of the Government's decentralisation policy
- It would strengthen multi-disciplinary research in close proximity to agricultural clients and so improve research effectiveness, and revenue from industry
- The sale of assets would yield significant revenue

This chapter examines each of these in turn.

¹² Report on BCRI Rydalmere Review, Curll M, Grieve A, Corbin E, 1989, p12

4.2 Decentralisation Policy

In his evidence to the Standing Committee, the Director General stated:

The decision on BCRI was made by the Government as part of its decentralisation policy and this decision was strongly supported by the executive of the Department.¹³

NSW Government Policy

The Audit Office has been unable to identify a contemporary policy of the NSW Government that promotes decentralisation of government functions per se.

Government policy is directed at encouraging private sector investment in regional areas and growing regional competitive advantage. It seeks sustainable regional employment, by encouraging local communities to grow themselves, where there is an economic advantage to do so, supported by infrastructure improvements.

Agriculture Portfolio Policy

There has been a history of decentralisation within the Agriculture portfolio:

- The Department's head office was transferred to Orange in 1991. It had been located in Sydney for 100 years, since its inception. This move of 400 staff was the largest of its kind ever undertaken by a government department in Australia.
- The Rural Assistance Authority has recently relocated from Sydney to the Department's head office in Orange.
- The 21 March 1996 publication, 'Government & Agriculture - A partnership for the future', signed by both the Minister and the Director-General, states:

NSW Agriculture has reshaped its services and service provision. A major component of these changes has been decentralisation. This has allowed financial and human resources to be strategically located where agriculture industries need them most - in the country.

¹³ NSW Legislative Council Standing Committee on State Development, August 1996, op cit p97

**Audit
Observation**

A policy like this needs to operate consistently and over a long period of time because of the cost of the infrastructure involved. This has not always been the case, as shown by the decisions to construct the EMAI animal health facility at Camden (opened in 1990), on the outskirts of Sydney, and to close regional veterinary laboratories, consolidating their activities at Camden.

There does not appear to be an explicit policy on decentralisation either for Government functions as a whole or the Department of Agriculture. The Audit Office could find no Government directive to decentralise BCRI and considers that, unless a Government policy is explicit, any such directive should be in writing.

It is recommended that Government policies should always be made explicit or else established by directives in writing.

Even if, the decision on BCRI was made by the Government as part of a decentralisation policy, that should not obviate the need for a thorough evaluation of the costs and benefits of individual proposals. This is all the more important where major long-term investment decisions are involved.

4.3 Benefits of Multi-disciplinary Teams close to Clients

**“Centres Of
Excellence”**

The closure of BCRI was planned in conjunction with the upgrading of key regional research stations into “Centres of Excellence”. These are intended to

be strategically located throughout NSW and will integrate research, extension, diagnostic and other Departmental services along with those of CSIRO, universities and industry.....[they will] focus on programs that are both relevant to industry and strongly supported financially by Research and Development Corporations....¹⁴

**BCRI “Poorly
Located”**

By contrast, the Director General commented:

BCRI is not located near the major industries it serves. The relocation brings the pathology, chemistry and entomology programmes closer to the major agricultural industries.....¹⁵

¹⁴ NSW Agriculture submission to Standing Committee, 25/1/96, see Standing Committee report 1996, p98/9

¹⁵ *ibid* p99

Opinions Divided The 1990 cost-benefit study, whilst not attempting to assess the scientific merit of decentralisation, concluded that location had little impact on funding potential:

There is almost universal acknowledgment within the Department, amongst grower organisations and importantly, representatives of funding agencies, that location has no bearing on the availability or otherwise of industry funding. The clear signal is that funding bodies look at projects and people. If the project conforms to agency guidelines and the people are seen to deliver, funds will be made available, taking into account the financial position of the funding bodies.

It is therefore not appropriate to assume that there will be an increased funding available by relocation. Whilst acknowledging that successful multi-disciplinary teams in the regions are more likely to attract industry funding to the regions, the inference must be drawn that total industry funding is unlikely to be affected by location.¹⁶

Since that time, there have been significant changes in the organisation and funding of research nationally:

- the development of Cooperative Research Centres
- increasing reliance on industry funding in an increasingly competitive research environment
- continuing pressure to rationalise research into fewer, larger, multi-disciplinary teams

Critical Mass The Standing Committee on State Development received a considerable amount of evidence on the merits of decentralisation in this context. There was general support for multi-disciplinary research teams, but many expressed reservations about whether the size of the Centres of Excellence proposed would achieve the critical mass necessary to deliver the improvements in productivity and funding that NSW Agriculture was hoping for.

¹⁶ Benefit Cost Analysis of Relocation of BCRI, Coopers and Lybrand, 1990, p16.

**Audit
Observation**

The evidence presented does not convince The Audit Office that the sale of BCRI premises at Rydalmere was the best option available. Nor does it offer a benchmark for judging the effectiveness of the changes once implemented.

4.4 The Benefits from Selling BCRI

BCRI at Rydalmere was NSW Agriculture's last substantial research site located in an urban area. As such its sale could be expected to offer the greatest potential for revenue generation of all the Department's assets.

It is also represented a considerable investment in its own right. The original laboratory built in 1961, had seen significant extension (in 1985) and refurbishment (1985-1991) to meet latest occupational health and safety standards. It was an accredited laboratory, with specialist equipment and storage facilities (for plant and entomology collections), capable of accommodating 200 staff.

4.4.1 1990 Proposal to Decentralise BCRI

In 1990, the Department initiated plans to decentralise BCRI similar to those adopted in 1995. The decentralisation proposal involved significant capital expenditure, as well as significant revenue from the sale. In line with the Government's economic appraisal policy, a cost-benefit analysis was called for.

**Cost Benefit
Unfavourable**

The analysis, undertaken by Coopers and Lybrand, recommended against the move. The anticipated costs exceeded even the most optimistic estimates of revenue from asset sales. And the extra benefits claimed from decentralisation (through greater productivity and increased client contact) were judged to be marginal at best. As a result, the plan did not proceed. The table below summarises the key elements in the analysis:

Cost Benefit of Decentralising BCRI 1990	
Capital Costs	-\$29,360,000
Increased Operating Costs	-\$40,000
Asset Sale Revenue	+\$9M - \$22M
Net Present Value (Cost)	- \$2.1M - \$19M

Source: Benefit Cost Analysis of Relocation of BCRI, Coopers and Lybrand 1990 p 4f

The two key factors influencing the outcome were the new building costs at destination locations, and the expected revenue from sale of the assets at Rydalmere.

**High Capital
Costs High
Revenue Costs**

The costs of new building were the Department's own estimates. The wide range of revenue estimates reflected the range of possible uses suggested by the Valuer General, from residential (\$6m) to laboratory (\$16m). Indeed the range used in the analysis was extended to accommodate a difference of opinion between the Valuer General and the Department:

The Department is of the opinion that the amount of interest shown by other government departments towards Rydalmere's specialist facilities, may see them realise a value closer to \$22m.....¹⁷

This opinion was supported by some real estate advice but no comprehensive market testing was undertaken nor a site specific assessment of capital costs of decentralisation. The figures must therefore be regarded as preliminary at best.

1990 To 1995

Between 1990 and 1995, BCRI continued to provide chemistry, entomology and plant pathology services from Rydalmere. Staff numbers, facilities and equipment were maintained. Financial support from industry for its work increased.

4.4.2 1995 Decision to Decentralise BCRI

The 1995 decision to decentralise BCRI was taken in response to the sudden change in the Department's budgetary prospects. It was not mentioned in the Department's annual Strategic Disposal Plan, submitted to the Property Services Group that year. The first suggestion of its closure was as part of the Department's retrenchment program outlined by the Minister in his August letter to the Treasurer. By September, the Minister and the Treasurer had agreed that \$22m from the sale of BCRI would be available to offset budget cuts in 1996/7 and 1997/8.

Five years on from the first appraisal, the merits of decentralising BCRI in 1995 looked very different. Although no formal cost-benefit analysis was undertaken, the estimated expenditure and income were as follows:

¹⁷ Benefit Cost Analysis of Relocation of BCRI, Coopers and Lybrand 1990 p14

Costs of Decentralising BCRI 1995/6	
Capital and relocation cost	- \$5,400,000
Increased Operating Cost	-
Asset Sale Revenue	+ \$22,000,000
Revenue minus Cost (no discounting)	+\$16,600,000

Source: Report on Rationales for closing the veterinary laboratories at Armidale and Wagga Wagga and the Rydalmere BCRI, NSW Legislative Council Standing Committee on State Development, August 1996, p108-111.

NOTE: Staff relocation (or redundancy) costs based on 130 staff at \$10,000 each.

Capital Cost Estimates Reduced

The key change was the reduction in the capital costs of decentralisation. This was based:

- on the refurbishment of existing, underutilised, facilities rather than rebuilding at most destination sites
- on the transfer and accommodation of permanent staff only, not the 50 or so industry-funded (temporary) staff employed
- on the prospect of additional facilities at Centres of Excellence being provided by industry.

When asked by the Standing Committee in June 1996, if he thought the replacement facilities would be up to standard, the Director General replied:

Within the limitations of resources to be provided, yes, and given the fact that the Centres of Excellence attract an enormous amount of industry dollars as well, I believe they are sufficiently resourced to be brought to that standard....¹⁸..

Staff expressed concern to both the Standing Committee and to the Audit Office about the adequacy of the initial investment at destination sites to provide comparable facilities to those at Rydalmere.¹⁹

¹⁸ NSW Legislative Council Standing Committee on State Development, August 1996, op cit p108-109.

¹⁹ ibid p123-124

Maximum Revenue Estimates Retained

Although the costs of decentralisation have reduced dramatically, the estimates of revenue from the sale of the Rydalmere site have not. Indeed, the Department argued that there was likely to be an increased return

*“... as a result of greater demand for land in the Rydalmere area
²⁰
*

No market testing or other evidence has been presented to support this claim. The \$22m figure appears to have been brought across from the 1990 cost-benefit analysis without further justification. In a letter to the Treasurer dated 15 December 1995 the Minister for Agriculture noted:

The figures were not based on any close examination of values and were essentially my best guess.

4.4.3 Developments Since

On 1 March 1996, State Property (the former NSW Property Services Group) were contacted for the first time by NSW Agriculture to arrange for the disposal of the site. The first meeting between the two parties took place in May and the deadline for initial offers is likely early in 1997.

Disposal Difficulties

In the meantime, State Property encountered a number of difficulties with disposal of the site.

- Most of the site is crown land dedicated for laboratory use. To use that land for other purposes would require a revocation of the original order. Such a revocation requires approval by both Houses of Parliament.
- Only a small number of agencies have expressed any interest so far in operating a laboratory at this location. (One interest which has been quoted in the press is that of the University of Western Sydney. It has plans to build a biology laboratory on its campus nearby, if it can find the money.)
- The Commonwealth quarantine service (AQIS) occupy a building on the BCRI site (and have contributed to another) and are seeking \$1.5m in compensation to move.

²⁰ ibid p110.

State Property believes that the market offers very limited prospect of attracting a sale price close to the \$22m anticipated in the original budget documents. In its view, the Valuer General's 1990 estimates of residential/commercial value (\$5m-\$14m) represent a more realistic range of the potential returns.

4.5 Observations on BCRI Decision-making

BCRI As Asset Sale

The Government's decision to close BCRI was made in September 1995 in the context of NSW Agriculture needing to find substantial savings in future budgets. The decision also fitted within the Department's more general rationale of consolidating and rationalising research sites.

\$22m In Revenue Estimated

No formal assessment of cost and benefit was undertaken to support this decision but it had the potential, it was claimed, to generate significant revenue totalling \$22m in the two succeeding years. These estimates appear grossly over-optimistic.

Estimates Over-Optimistic

Declining estimates of the net return from the sale of BCRI		
August 1995	\$22M	Revenue from asset sale included in forward estimates to make up budget shortfall
June 1996	\$17M?	Net revenue after decentralisation costs of functions and staff
Nov 1996	\$14M?	With extra capital and decentralisation costs, BCRI site and sale costs)
March 1997	\$0-\$5M?	With feasible sale price

Some unforeseen developments are to be expected in any disposal arrangement. But the number and scale of the surprises encountered with the BCRI sale serve to confirm the risks of hasty decision-making.

No Appraisal

The Government's own guidelines on economic appraisal, valuation and disposal of assets stress the need for such decisions to be based on a full and explicit examination of the options, on feasible timetables, and on realistic estimates of return. The decision to close BCRI demonstrates none of these.

In March 1996, the major part of the budget cuts for 1996/7 and 1997/8 were rescinded by the Government. This did not extend to the planned decentralisation and disposal of BCRI.

**Budget Change
But No Review Of
BCRI Closure** The rescinding of the budget cuts might have been expected to warrant a reconsideration by Government of the merits of decentralisation, as it did for services which had been affected by voluntary redundancies. But no such reconsideration occurred even though no capital expenditure had been committed at that stage on decentralisation and some of the difficulties in relocation and disposal had become apparent.

By then the decentralisation of functions from BCRI was a major plank in NSW Agriculture's new strategy, published concurrently, to create regional Centres of Excellence for agricultural research.

**The Situation
Now** At the beginning of 1997, most of the initial capital expenditure for decentralisation has been committed and BCRI has now been closed.

In future, it is recommended that the Government ensure that an economic appraisal is undertaken before all major developments, including rationalisation plans, are implemented. The appraisal should include details of anticipated benefits from the changes planned, so that their achievement can be evaluated after implementation.

5 Planning

5.1 Planning Context

Long -Term And Short-Term

Planning by agricultural industries needs to marry long-term trends in tastes, products, the environment and farming costs; with short-term risks in markets, weather, disease and resource availability. Planning by NSW Agriculture needs to do the same.

Example 1- Planning for Animal Health

The development of animal health laboratory services in NSW illustrates the long-term impact of changing technology, transport and other department functions, as well as shorter-term political considerations, on Department plans.

Planning Animal Health Laboratory Services		
	1923	First animal research laboratory established on rural land at Glenfield, west of Sydney.
Transport Concerns	1950s	Disease eradication and statewide diagnostic work increases at Glenfield. Concern about its effectiveness because of slow specimen transport (by rail and road) from rural areas.
Regional Network	1960s	Regional network of veterinary laboratories planned to improve turnaround of diagnostic service and increase knowledge/research on regional diseases. Laboratories opened: 1965 Armidale 1969 Wollongbar 1974 Wagga Wagga 1981 Orange
A New Site Offered	1970s	NSW Government saves heritage farm site at Camden from threat of redevelopment. Part of site is offered to NSW Agriculture to replace Glenfield which is now suffering urban encroachment.
A Political Decision	1980s	Announcement made during election campaign of a major new facility in marginal seat at Camden.
Closures Resisted	1988	NSW Agriculture proposes closure of Armidale veterinary laboratory to take advantage of economies of scale in research/diagnostic services and improved (air/road express) transport. Protests from staff and community. Proposal shelved.
	1990	Major new animal diagnostic facility opened at Camden (EMAI) and functions transferred from Glenfield, Richmond.
Closures Revisited	1995	Vet labs at Armidale and Wagga Wagga closed to provide space for functions relocated from BCRI.

Example 2 - Planning the Cattle Tick program

Long-Standing Problem	Cattle ticks have been a government concern for even longer. They were introduced into NSW before 1906. The Board of Tick Control was established in 1923 to contain the threat, establishing a tick quarantine area covering much of north-eastern NSW. By 1950, the Board employed over 700 staff and reported infestations were exceeding 700 annually.
Dipping Program Reduces Risk	Since then, through the development of better tickicides and the adoption of a widespread dipping program, funded by NSW Agriculture, the level of infestation has reduced and with it the quarantine area and the inspection staff required.
Changing The Approach	NSW Agriculture's response over the last ten years has been to change the approach: planning a careful reduction in the dipping program within the rest of NSW to match the reduced risk of disease, and the increased risk of contamination. The aim is to eradicate the pest in NSW by the year 2000 and involves a combination of research, inspection, finance and consultation, as Appendix 3 documents in more detail.

Observations

These examples illustrate not just the long term nature of much of the Department's work, but also two other factors that need to be factored into the process:

Many Stakeholders	<ul style="list-style-type: none"> • Achieving a consensus for change in agriculture is often difficult because of the large number of stakeholders involved. As a result, consultation, planning and implementation can take considerable time.
Sub-Optimal Solutions	<ul style="list-style-type: none"> • Improving the efficiency of the Department's own programs is often constrained by the need to take account of wider public (and hence government) interests. The solutions reached may not always be the most efficient in terms of the department's core business objectives.
Wide Range And Changing Function	<p>These objectives have themselves changed over the years as environmental, fisheries, quarantine and animal welfare issues have developed alongside rural concerns, and been assigned to different state agencies. The wide and changing functions has made planning more difficult for the organisation as a whole.</p> <p>NSW Agriculture was therefore one of the first to adopt a more formal and comprehensive planning process when the NSW Office of Planning and Management (OPM) recommended one in 1990.</p>

5.2 NSW's New Corporate Planning Process 1990

The Government's *strategic management cycle* was designed to synchronise departmental management practices with the overall government timetable. As part of this cycle, departments were encouraged to adopt a regular process of corporate and strategic planning.

OPM's planning stages

- Analysing the **operating environment**
- **Aligning the organisation** to that environment
- Developing a **corporate plan** with a mission, vision and objectives for the organisation which reflect that alignment
- Evaluating options to arrive at **strategic plans** for major functional areas which will achieve the corporate objectives
- Developing tactical or **action plans** for teams and individuals to implement those strategies throughout the organisation
- **Monitoring progress** against targets in all plans
- **Review plans** themselves annually²¹

Supporting this approach, the Government also adopted a comprehensive framework for the management of assets:

....The NSW Government now requires all agencies to develop a capital investment strategic plan which will present a detailed five years' program and a broad strategy spanning at least ten years.....

... These plans will be borne out of agencies' corporate and overall strategic plans and will reflect a Total Asset Management approach to capital investment planning.....²²

The emphasis of these planning initiatives by the Government has been to tie government resources more closely to achieving specific outputs and outcomes, to encourage longer-term planning and to base investment decisions on more explicit assessments of costs and benefits. Similar developments are evident in NSW Agriculture's research partners and client organisations, such as CSIRO and Cooperative Research Centres.

²¹ Managing for Performance in the NSW Public Sector, Strategic Plans and the link to Performance Agreements, Strategic Management Brief Number 2, NSW OPM, 1990 p9,10

²²Total Asset Management System Manual, NSW Department of Public Works 1992, Capital Investment Strategic Plans p1

5.3 NSW Agriculture's Adoption of the Framework

The Fundamental Review 1991

In line with the approach recommended by OPM, NSW Agriculture undertook a fundamental review, "perhaps the most extensive in the department's 101 year history"²³, of its environment, its operations and its organisation. The review resulted in three major changes, implemented in 1991/2:

- a new corporate direction aimed at a more market-driven, "beyond the farm gate" approach
- a new department structure, organised along product lines, to match
- a management and planning process at all levels driven by explicit objectives, with a focus on measurable outcomes.

In the years since, the planning process has been extended to incorporate an appraisal system which measured individual performance against plans. The plans themselves have also evolved to reflect a new government focus on "market failure" (following a review by ACIL) and increasing pressure on resources in the department. As the strategy for the Division of Plant Industries in 1994 commented:

Over the next three years the Department will be operating in a difficult environment, particularly due to a probable reduction in consolidated revenue funding, greater competition for external funds and increased scrutiny of government activities, based on the principles enunciated in the ACIL review. These factors will place significant pressure on the Division to:

- *rigorously examine resource allocation..*
- *further develop collaborative arrangements..*
- *ensure adequate external funding.....*²⁴

The Current Planning Framework

All research, extension, regulation and policy functions are now managed in 18 key programs. Each program has developed its own 3 year strategic plan and each member of staff produces an annual work plan to match. These plans form the basis for annual reviews of program and individual performance.

²³ Personal Communication from the Director General, November 1996

²⁴ Source: Division of Plant Industries Strategic Plan 1994-1997, p1

5.4 Audit Assessment of Agriculture's Plans

The audit reviewed a sample of plans at all these levels against good practice criteria drawn from NSW Office of Public Management's Planning checklist²⁵. (See Appendix 2 for the full list of criteria and the plans to which they apply). The tables below summarise the results, first for plans at program and individual level, and then for the Department's Corporate Plan.

Assessment of Program and Work Plans	
Criterion	Assessment
Process	Well-integrated with the performance management system, although links with budgeting less clear.
Analysis	Extensive industry analysis in most cases presented in market plans.
Program strategies	All programs have plans. Program strategies can be tied to corporate objectives (because the latter are so broad), but planning here is primarily bottom-up more than top-down. Again little evidence of links to major resource allocation.
Action plans	Good linkage with program strategies in most cases; again more bottom up than top down; especially in research (where external funding is major factor in priority-setting)
Management responsibilities	Planning and monitoring responsibilities clearly defined at Program manager, leader, supervisor levels.
Targets, performance indicators	Considerable attention to outcome as well as output indicators in most plans.
Monitoring and review	Considerable attention to monitoring and review against plans in annual performance appraisal process, now well-established.

²⁵ Corporate and Strategic Planning Checklist, NSW Office of Public Management, Strategic Management Brief 3, 1990

Assessment of Corporate Plan	
Criterion	Assessment
Process	A well-integrated annual process, until 1995, including links to performance management systems at all levels
Analysis	Detailed initial review and continuing industry analysis, but funding risks not well-identified.
Vision and Mission	A vision, mission and core business statements that describe the department's functions in only the most general industry terms (eg knowledge & access, not research & regulation).
Corporate objectives	Broad industry objectives, rather than departmental, for the most part. Government contribution to these objectives hard to define or measure.
Corporate strategies	No corporate strategies linked to corporate goals. No key result areas identified to guide resource allocation and to focus corporate performance assessment
Program strategies	Program strategies can be tied to corporate objectives (because they are so broad).
Management	Planning responsibilities are defined.
Targets, performance indicators	Not clearly defined above program plans, although work on performance indicators for key functions (in program statements) is encouraging.
Monitoring	Progress against Program plans summarised in annual report
Plans are reviewed	Annual reviews until 1995 budget reductions; then no plan produced until <i>Partnership for the Future</i> 1996

The plans exhibit many good practice features, particularly the program/product plans and work plans. Here, there are:

- clear links between individual tasks and program objectives across regions, disciplines and functions
- improving outcome, as well as input and output, targets
- regular reviews to monitor individual and plan achievements as the following examples illustrate from the cotton program.

Linked Objectives and Performance Measures Examples from Cotton Program		
	Selected Objectives	Performance Measures
Corporate	Internationally-competitive Environmentally-friendly	None pertaining directly to the Department.
Fibres, Oils And Specialty Products Program	Enhance international market competitiveness of plant fibre, edible and industrial oils, protein grains, sugar etc, and ensure the environmental sustainability of these industries	Revised market-focussed plans issued for all products. 95% take-up by growers of recommended cultivars
Cotton Sub-Program Goal	Develop and promote the adoption of improved technologies and practices which ensure that the cotton industry is internationally competitive, market responsive, productive and sustainable	A pest management strategy was developed for extension to growers of Bt cotton in 1996/97 50% of cotton fields were cultivated to destroy pupae of heliothis in 1996
Cotton Sub Program Objective	Have farmers adopt sustainable pest and disease management systems and reduce the cotton industry's dependence on pesticides	Biological organisms which effectively control soil-borne seedling diseases etc in cotton have been identified and a strategy for their commercial release will be developed in 1996/7
Cotton Researcher	Quantify the importance of Value Added Management (VAM) and promote management strategies to maximise their beneficial impact on cotton crop by 1997	A field experiment completed evaluating the effect of various rotation crops on the subsequent distribution of VAM in soil

Source: Plans and performance assessments

However, the corporate plan itself lacks a strong linkage between objectives, priorities and resource allocation department-wide. This is most apparent in the absence of explicit corporate strategies to achieve corporate objectives, and in the very general nature of the objectives themselves, see the table below, most of which could serve a NSW-based agribusiness equally well.

NSW Agriculture - Corporate Goals 1996
<ul style="list-style-type: none"> • <i>Food and fibre products that meet the requirements of consumers in domestic and export markets, and that are internationally competitive in price and quality</i> • <i>The use of environmentally-friendly agricultural practices that enhance the sustainability of the food and fibre industries</i> • <i>Consumer confidence in the quality and safety of New South Wales food and fibre products</i> • <i>Enhanced farm business and risk management skills of NSW primary producers</i> • <i>Greater community awareness of Government services and programs and increased Government appreciation of the needs of rural people</i> • <i>Enhanced productivity and morale of Departmental staff</i> <p>Source: Annual Report 1996, p6</p>

Defining and measuring NSW Agriculture's contribution to these goals, as written, is difficult. This difficulty is shared by other natural resource agencies. Something more department-specific is needed if the corporate plan is to be used as NSW Agriculture's "contract" with the Government. These probably need to be couched in terms of the major functions that the Department provides to help guide investment decisions on human and capital infrastructure, which tend to be service-specific.

The following example on extension services, drafted by the Department, indicates that it is considering developments along these lines already.

*Modifying the extension service to facilitate better two-way communication and information transfer between consumers, retailers and wholesalers, manufacturers and producers.*²⁶

²⁶ NSW Agriculture Draft Statement of Financial Performance, 1996

Repeated rejection on “political” grounds of Departmental proposals to improve efficiency appears to be the main reason for a number of departures from good planning practices in NSW Agriculture.

- There is a reluctance to put strategic options in writing, or consult on them, for fear of their being still-born
- The systematic approach to decision-making, based on an appraisal of costs and benefits, tends to be devalued
- Planning tends to be short-term
- There is a lack of clear priorities communicated on changing, or conflicting, objectives. Some changes may not be announced explicitly but be implemented by default (by reducing resources, for example)

Such inefficiencies have been brought into sharper relief in recent years by the Department’s adoption of more explicit goals focused on value for money in agricultural industry, and government demands for greater efficiency in the Department’s own operations.

The tensions are well-illustrated in comments made by staff on changes to extension services.

²⁷ Report of Workshops on Department of Agriculture Functions, ACIL, 1993, p4

Policy and Practice in the Delivery of Extension Services Comments by Staff	
Extension Officer	Managers tell us to cut down on farm visits but they won't inform the farmers officially or support us with written guidance.
Program Leader	My industry is starting to put in extension officers of its own. Therefore, I'm going to concentrate my extension officers elsewhere, but we need to do this quietly otherwise the industry will cry foul.
Program Manager	The extension service would be more cost-effective if operated by teams working out of fewer offices. They could develop specialisation, improve links with researchers and be better managed. However, I've only achieved that in one place because many communities put pressure on the Minister to retain "their own" extension officer.
Senior Executive	Without clear policy, front-line officers have difficulty knowing how to cope with the one-on-one repetitive enquiries from existing and new clients. If their priorities disadvantage their traditional clients then they face the consequences without any clear support from either Departmental or Ministerial level.

The recent *Partnership* document appears to have done little to clarify priorities here:

It is clear that there is indeed room for private sector participation in extension service provision ...

..... But it is also clear there remains a demand and a role for Government, through NSW Agriculture, to maintain its "unaligned", independent brokerage of information up and down the agricultural and agribusiness marketing chain.

The Government, through the Department and in partnership with agriculture, is committed to an enhancement of its extension service to reflect these changing needs.

NSW Agriculture is developing whole of industry specialists who will be strategically located [They] will continue with their major role of assisting the department achieve its community service obligations, including helping agriculture industries minimise any adverse impact of agriculture on the environment.²⁸

Accordingly it is recommended that infrastructure and human resources should be planned to maximise efficiency and effectiveness. If Government chooses alternatives that have higher costs or lower benefits for the Department, then these should be explicitly funded.

²⁸ Government and Agriculture A Partnership for the Future, 1996, p10

5.7 Conclusions on Corporate Planning

The lack of corporate strategies means the corporate planning process has not provided the longer-term framework to support investment decisions on capital (or human) resources, recommended in Government guidance. Only with the *Partnership for the Future* document in 1996 has such a framework emerged. Even then, the document is described as an action plan rather than a strategy, appropriately enough. It extends for only 18 months and most of the key changes were already being implemented before it was published.

The lack of explicit strategies and targets at the corporate level have also undermined one of the fundamental roles of the corporate plan - as an accountability mechanism for government. This is reflected all the way down the planning chain. While the lower level plans are an effective management tool within programs, the corporate planning process has not been used to set priorities across programs and resource them accordingly.

This is evident from the comments of staff, particularly research staff, interviewed for the audit.

- *Our workplans are driven by the requirements of the industry and research funding bodies*
- *We find the areas of concern ourselves, at the bench level and with the industry; but these may get picked up and supported by the Department, particularly if they have the support of the industry*
- *The Strategic Plan came from asking people what they were doing at the time and accommodating this with appropriate words. Planning is from the bottom up.*

The absence of a clear linkage between plans and resources is also evident in the abandonment of the formal planning process, at the corporate level, when 3-year budget reductions were announced in 1995. Meanwhile, plans continued to be developed at program and individual level during this period, as if nothing had changed.

It is recommended that the Department should consider including corporate strategies in its next corporate plan to provide a clearer basis for strategic resource allocation and for corporate accountability.

6 Internal Control Processes

6.1 Framework

Internal controls are put in place to keep an organisation on course towards its goals and achievement of its mission. The system of internal controls complements an organisation's planning system. In short, it can help the organisation get to where it wants to go, and avoid surprises along the way.

Best Practice In Internal Control

In June 1995 the NSW Treasury issued its Statement of Best Practice for Internal Control and Internal Audit. This framework for internal control draws upon world's best practice, including the findings of the US Treadway Commission and its Committee of Sponsoring Organisations (COSO), and the UK Cadbury Report. It defines internal control more broadly than the traditional "financial control" to encompass the following

Major Components of Internal Control
<ul style="list-style-type: none"> • Control Environment <ul style="list-style-type: none"> • Risk Assessment <ul style="list-style-type: none"> • Control Activities <ul style="list-style-type: none"> • Information and Communications <ul style="list-style-type: none"> • Monitoring

The Audit Office has examined key elements of the system of internal control in NSW Agriculture in this context.

Control Environment

The first element is the control environment, which includes the way management assigns authority and responsibility. It is the foundation for all other components of internal control, providing discipline and structure.

Risk Assessment

The second element is NSW Agriculture's approach to risk assessment, which is a critical component of effective internal control. While risks are present in any management situation, the Department has particular exposure because of the risks inherent in agriculture, including market and environmental risks, and an increasingly competitive funding position. There are also risks in relocation and redundancy programs, for example, through the loss of experienced staff.

Control Activities

The third element is NSW Agriculture's control activities. These incorporate the policies and procedures that help to ensure that management directives are carried out.

Information And Communications The fourth element is the need for pertinent information to be identified, captured and communicated in a form and timeframe that enables staff to carry out their responsibilities.

Monitoring Finally, the internal control system needs to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through the monitoring activities of management and through independent evaluations by internal audit and other review units.

6.2 Audit Assessment

Audit Assessment The Department has done much to establish a sound internal control framework. It has:

- a long-established and comprehensive code of conduct covering ethical issues
- a delegations manual, job descriptions and work plans which define the authority, responsibilities and expectations of all management posts
- an organisation structure redesigned, in 1991, to reflect the department's new focus on industry outputs rather than departmental inputs
- a comprehensive set of policy and procedure manuals to assist managers with control activities, along with management committees covering key control areas - eg. Budget and Staff Establishment Review (SERC)
- a well-established performance management system that reviews individual and program achievements against corporate goals throughout the organisation.

However, there are a number of areas where improvements could be made. These are mainly in:

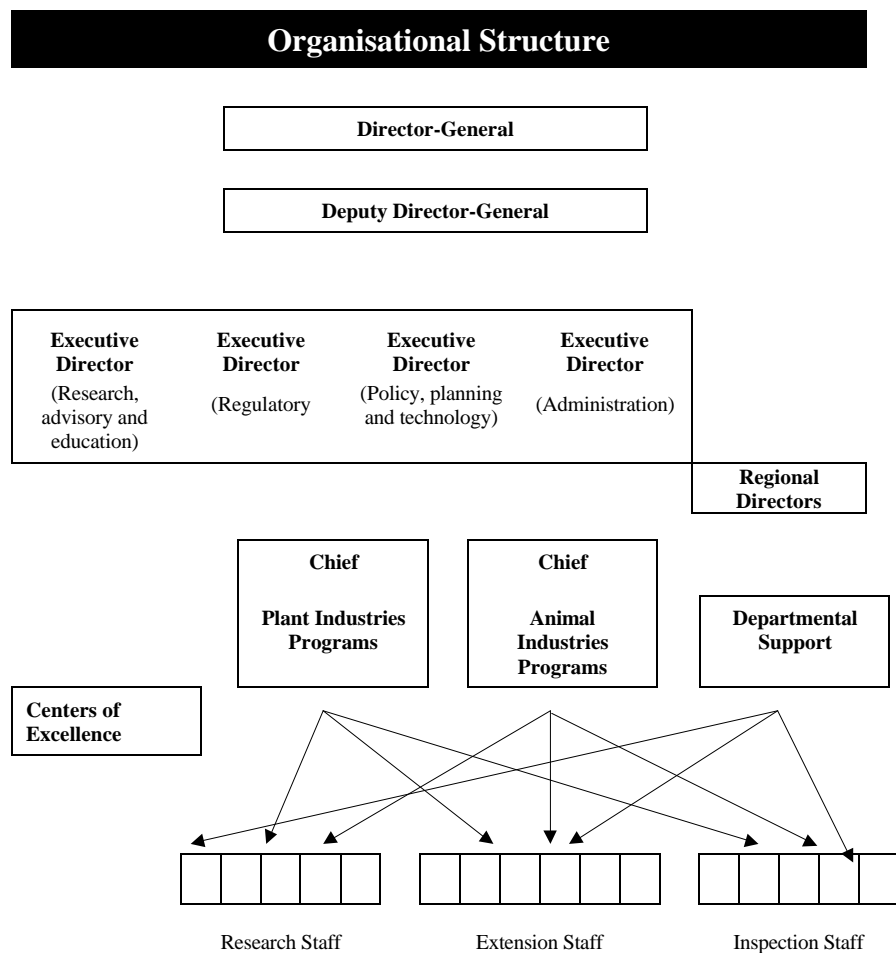
- organisation and management direction
- more pertinent management information
- developing the monitoring role

6.3 Organisation and Management Direction

The major functions of the Department- research, extension, regulation - depend for their success substantially on the abilities of the specialist staff it employs. These functions are dispersed across the State and individual officers are given considerable discretion as to how they carry out their work, within the overall (annual) framework provided by program- and work-plans.

Organisation

Their different demands require an organisational structure that finds a balance between regional, discipline and product priorities; and between short-term and long-term. The current (since 1991) management matrix is organised along industry product lines giving primary responsibility to product/program managers and subordinating the former regional and discipline management structure.



A recent addition to the structure has been that of seven 'Consultative' Regional Managers, based in country locations. Another addition has been the appointment of Directors to the Department's new 'Centres of Excellence'. The two Institutes at Camden and Rydalmere already have Directors.

Any organisational structure will be a compromise, especially with the range of locations, disciplines, programs and products, that NSW Agriculture must integrate, both at program level and for the organisation as a whole. The key issue, regardless of structure, is whether there is a clear management direction; manager accountabilities are appropriate to make the structure work, and whether information systems are flexible enough to meet these accountabilities in all roles at all levels.

Management Direction

The lack of strategic direction for the organisation as a whole has already been referred in the previous chapter. Management direction within the annual cycle is harder to assess. There is a Board of Management, comprising all 6 Senior Executives, but it meets irregularly and its decisions are not made public. It has no formal agenda or minutes and it receives no regular reports to monitor progress against corporate objectives or to inform decision-making.

By contrast in other agencies the Board of Management is often used as the main forum for coordinating and communicating corporate direction, and for management control. Indeed, this is the approach adopted in the Department's new Centres of Excellence. This model might be considered for application at the corporate level, to more clearly demonstrate management control and the communication of corporate direction.

The Audit Office recommends strengthening the role of the Board of Management as a means of management control.

Management Accountabilities

The accountability relationships have become complex at the top of the organisation structure. Program managers have multiple reporting lines through Chiefs to Executive Directors. Regional Directors report separately to the Director-General. Centre Directors report to Boards of Management, chaired by the Executive Director Research, reporting in turn to an over-riding Board of Management (which includes the Chiefs), reporting finally to the Director-General.

Under these arrangements particular care will be needed to ensure clear assignments of responsibility and delegations of authority to deal with the Department's many objectives, operating functions and regulatory requirements, including responsibility for information.

6.4 Information

NSW Agriculture needs consistent and comprehensive information on both the external and internal environment, if it is to plan and manage effectively. Information systems need to be flexible enough to satisfy the different needs of management up and down the organisation and to accommodate change.

External Information

NSW Agriculture has access to a range of external information, particularly from statistical sources and research facilities; through its committee and research council memberships, and from extensive interactions with farmers, the industry and Government.

Internal Information

Information to manage the Department's own operations is longer-established but, in many cases is less well-developed. This is partly because of the slow response of information systems to changes in organisation structure and the needs of managers. The chronology of efforts to develop an integrated financial and project management system illustrates this most clearly.

**Financial & Project Management Information Systems
Development Chronology**

- The Department acquired its **Financial Management System** in 1984, which was used until 1996. The reports lacked detail. Major cost elements (eg salaries) were not allocated to location or project.
- In 1985 the Department introduced a paper **Management Information System**, employing forms that were used by staff, once a year, to advise the percentage of their time spent in different areas related to the corporate plan. There was no actual time recording system.
- In 1989/90 a project was initiated to develop a **Project Recording System**. The system became functional but was not introduced, on the basis that it relied on DOS technology when superior software packages were available
- In April 1993 a framework for an **Executive Information System** was proposed by a review team within the Department, linked to outcomes and achievements of all programs, together with an associated management information system collecting data. The project was suspended in 1994.
- In September 1995 the Director-General requested establishment of a **Research Project Register** to report, in particular, on the resources engaged and funds budgeted for all research projects.
- From July 1996 a new financial software package has been installed and there are plans to link it with project management and human resources modules. There are still no plans to provide actual apportionment of staff costs to projects using actual time recording.

The slow progress is despite the fact that, in 1992,

The IT Steering Committee considered the major priority to be the provision of information that would allow program managers and senior management to evaluate and monitor the allocation of resources to Departmental programs.²⁹

Staff are the key resource for the Department to manage (over 75% of its expenditure goes here). Projects, over 2000 of them, provide the basic units of work that use staff time to meet the Department's objectives. Individual times spent by researchers and service providers are not costed to projects. Without accurate and regular information provided to managers on these key resource inputs, and on the work they do compared with plans, it is hard to see how management can exercise effective control.

Given the organisation structure that has been adopted, it is particularly important that managers other than project leaders have access to such information, aggregated and tailored to their control responsibilities: Executive Directors, Centres of Excellence Directors, Regional Directors particularly. The new systems should provide this but they are still some way off, as illustrated by the difficulty in aggregating resource costs by function to support Treasury submissions (program statements) in 1996.

**Use Of
Information**

The absence of relevant costing information has not impacted directly on the achievement of the Department's goals or on performance measures, either at corporate or program level because they rarely refer explicitly to project costs or resource efficiency. At this stage such information is largely confined to estimated information mainly used to support program statements for central agency use. Financial management (apart from the management of travel costs and other small amounts of discretionary funds) has been seen largely as the preserve of "Corporate Services".

It is recommended that the Department ensure implementation of an effective financial management information system.

²⁹ NSW Agriculture IT Strategic Plan 1992 p3

6.5 Monitoring

The effectiveness of internal control needs to be monitored regularly, by management and by review units like internal audit.

Line Managers Monitoring

At the highest level, the Treasury Better Practice Statement requires that the Director-General include in the Annual Report a 'Statement of Responsibility' in relation to the establishment and maintenance of an effective system of Internal Control. A statement to this effect was included in the 1995/96 NSW Agriculture Annual Report.

Increasingly, good practice organisations are expecting line managers to take explicit responsibility for the risks, and the controls, within their jurisdiction. In support of this, a practice that is becoming more widespread is to require "statements of responsibility" at lower levels of management as well. However, there is little evidence in job descriptions or in work plans of such formal monitoring of the control system itself.

Internal Audit Monitoring

Monitoring seems to rely predominantly on the work of internal audit. In NSW Agriculture, its role is relatively limited by modern standards.

The Institute of Internal Auditors defines four fundamentals of good internal audit practice:

- An Audit Committee
- An Audit Charter
- Strategic and Annual Plans
- A Performance Measurement System³⁰

³⁰ Resourcing the Internal Audit Function IIA Australia 1995, p4,5

In NSW Agriculture:

- Neither the Audit Committee nor the Director-General appear to drive internal audit. The Audit Committee has met only once a year compared with quarterly in best practice organisations and it is reactive not proactive.
- There is an Internal Audit Charter but it is narrowly defined. If the Audit Committee is to provide assurance on internal controls generally, then the charter needs to be rewritten to make that explicit.
- The audit plans, both strategic and annual, do not by themselves allow a general assessment of internal controls to be made. To do so they need to form part of an overall corporate planning and risk management framework for the department, involving other review units and line management.
- There is no reference to a performance measurement system for internal audit.

The Audit Office recommends that the Charter of the Internal Audit Committee be overhauled and that the Audit Committee be used to drive the Department's internal audit function.

Appendices

APPENDIX 1 Illustration of Strategic Management Cycle

Month	Activities
September	Treasurer presents State Budget
October	Agencies start revising Corporate Plans (3-10 years) CEO's renew Performance Agreements
November	ERC reviews Budget Strategy. Treasurer issues forward estimates. Agencies start preparing or reviewing service strategies
December	Treasury seeks Capital Works proposals and projection for recurrent and capital receipts. <ul style="list-style-type: none"> ▪ Agencies finish updating corporate plans for budget and program enhancements. ▪ Agencies finalise Service Strategies ▪ Agencies prepare/review Capital Investment Strategic Plans and Asset Maintenance Strategic Plans ▪ Agencies submit Asset/Property Disposal Plans to Property Services Group
January	Agencies respond to forward estimates, portfolio savings and propose program enhancements. Agencies start preparing or reviewing service strategies
February	Agencies submit Capital Works programs supported by Capital Investment Strategic Plans and Asset Maintenance Strategic Plans. Economic appraisals, Value Management studies and Risk Management studies as appropriate for Program and Project support. These should also be provided as they are completed through the year.
March	
April	
May	ERC finalises recurrent budget and decides Portfolio savings and enhancement CWC approves overall Capital Works program.
June	Treasurer issues Budget and Capital allocations.
July	CEO's report on Performance Agreements.
August & September	Agencies finalise Cabinet minutes for Budget Session.

Source: Total Asset Management System Chapter 4 p15 (November 1993)

Note: The timing of the cycle has changed since this was published to reflect an earlier budget announcement date

APPENDIX 2

Corporate Planning Criteria
based on OPM's Corporate and Strategic Planning Checklist

Criterion	Corporate Plans	Program Plans	Work Plans
The process is integrated into a regular planning, budgeting and performance management cycle with wide participation, including the Minister.	*	*	*
Regular analysis of the risks, weaknesses, and opportunities faced by the organisation, which sets the context/objectives of the plans	*	*	
A vision and mission which reflects the business of the organisation and communicates it to all staff	*		
Corporate objectives which: <ul style="list-style-type: none"> • are specific to the organisation • are realistic and measurable • are prioritised (key result areas) and matched with resources 	*		
Corporate strategies which are realistic and match corporate objectives	*		
Program strategies which: <ul style="list-style-type: none"> • match corporate objectives and strategies • are used to guide resource allocation 	*	*	
Action plans which match program strategies and objectives		*	*
Management responsibilities for plan implementation clearly defined.	*	*	*
Targets & performance indicators are included and are realistic	*	*	*
Monitoring of performance against plans is undertaken and reported	*	*	*
Plans are reviewed regularly in light of changing circumstances	*	*	*

APPENDIX 3	Developing a new Approach for the Control of Cattle Ticks
Consultation	Close collaboration with the elected Board of Tick Control to inform stockholders and policy-makers of the latest threats and the merits of prevention and treatment measures.
Shrinking the original program	Promoted staged reductions in quarantine areas, dipping regimes and inspection staffing, in response to confirmed reductions in the threat of ticks;
Technical advice	Established, in 1985, the Cattle Tick Advisory Committee, including Queensland, CSIRO, veterinarian and staff representatives, to provide research and technical advice on latest risks and options to inform decision-making;
New risks	Promoted, in the early 1990s, a new approach to control in response to CTAC advice on the increasing risks to meat quality and to the environment from tickicide residues and contamination of dip sites;
Search and destroy	<p>In 1995, received endorsement of BTC and CTAC for a 5 year strategy to eradicate cattle tick through “search and destroy” instead of ‘dip and suppress” tactics.</p> <p><i>...A phased approach has been adopted allowing for full implementation by the year 2000 rather than a shorter deadline which is considered feasible but too rapid a change for the comfort of industry and staff.....</i></p> <p>Source: CTAC briefing note to the Minister of Agriculture, July 5 1995</p>
Retraining and redeployment	Developed a retraining and redeployment strategy to achieve staff reductions. This was overtaken in 1996 by a large take-up of voluntary redundancy (76 out of 200 staff). Temporary staff were employed to cover seasonal peaks.

Performance Audit Reports

Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
Department of Housing	<i>Public Housing Construction: Selected Management Matters</i>	5 December 1991
Police Service, Department of Corrective Services, Ambulance Service, Fire Brigades and Others	<i>Training and Development for the State's Disciplined Services: Stream 1 - Training Facilities</i>	24 September 1992
Public Servant Housing	<i>Rental and Management Aspects of Public Servant Housing</i>	28 September 1992
Police Service	<i>Air Travel Arrangements</i>	8 December 1992
Fraud Control	<i>Fraud Control Strategies</i>	15 June 1993
HomeFund Program	<i>The Special Audit of the HomeFund Program</i>	17 September 1993
State Rail Authority	<i>Countrylink: A Review of Costs, Fare Levels, Concession Fares and CSO Arrangements</i>	10 December 1993
Ambulance Service, Fire Brigades	<i>Training and Development for the State's Disciplined Services: Stream 2 - Skills Maintenance Training</i>	13 December 1993
Fraud Control	<i>Fraud Control: Developing an Effective Strategy (Better Practice Guide jointly published with the Office of Public Management, Premier's Department)</i>	30 March 1994
Aboriginal Land Council	<i>Statutory Investments and Business Enterprises</i>	31 August 1994
Aboriginal Land Claims	<i>Aboriginal Land Claims</i>	31 August 1994
Children's Services	<i>Preschool and Long Day Care</i>	10 October 1994
Roads and Traffic Authority	<i>Private Participation in the Provision of Public Infrastructure (Accounting Treatments; Sydney Harbour Tunnel; M4 Tollway; M5 Tollway)</i>	17 October 1994
Sydney Olympics 2000	<i>Review of Estimates</i>	18 November 1994
State Bank	<i>Special Audit Report: Proposed Sale of the State Bank of New South Wales</i>	13 January 1995
Roads and Traffic Authority	<i>The M2 Motorway</i>	31 January 1995
Department of Courts Administration	<i>Management of the Courts: A Preliminary Report</i>	5 April 1995
Joint Operations in the	<i>A Review of Establishment, Management</i>	13 September 1995

Agency or Issue Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
Education Sector	<i>and Effectiveness Issues (including a Guide to Better Practice)</i>	
Department of School Education	<i>Effective Utilisation of School Facilities</i>	29 September 1995
Luna Park	<i>Luna Park</i>	12 October 1995
Government Advertising	<i>Government Advertising</i>	23 November 1995
Performance Auditing In NSW	<i>Implementation of Recommendations; and Improving Follow-Up Mechanisms</i>	6 December 1995
Ethnic Affairs Commission	<i>Administration of Grants (including a Guide To Better Practice)</i>	7 December 1995
Department of Health	<i>Same Day Admissions</i>	12 December 1995
Environment Protection Authority	<i>Management and Regulation of Contaminated Sites: A Preliminary Report</i>	18 December 1995
State Rail Authority of NSW	<i>Internal Control</i>	14 May 1996
Building Services Corporation	<i>Inquiry into Outstanding Grievances</i>	9 August 1996
Newcastle Port Corporation	<i>Protected Disclosure</i>	19 September 1996
Ambulance Service of New South Wales	<i>Charging and Revenue Collection (including a Guide to Better Practice in Debtors Administration)</i>	26 September 1996
Department of Public Works and Services	<i>Sale of the State Office Block</i>	17 October 1996
State Rail Authority	<i>Tangara Contract Finalisation</i>	19 November 1996
NSW Fire Brigades	<i>Fire Prevention</i>	5 December 1996
State Rail	<i>Accountability and Internal Review Arrangements at State Rail</i>	19 December 1996
Corporate Credit Cards	<i>The Corporate Credit Card</i>	23 January 1997
NSW Health Department	<i>Medical Specialists: Rights of Private Practice Arrangements</i>	12 March 1997
NSW Agriculture	<i>Review of NSW Agriculture</i>	March 1997



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Australia

Postal Address

GPO Box 12
SYDNEY NSW 2001
Australia

Telephone (02) 9285 0155
Facsimile (02) 9285 0100
Internet <http://www.audit.nsw.gov.au>
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