

AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

Managing Departmental Amalgamations

Department of Commerce
Department of Primary Industries



The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Managing Departmental Amalgamations: Department of Commerce and Department of Primary Industries**. The report is accompanied by a **Better Practice Guide: Implementing Successful Amalgamations**.

A handwritten signature in black ink that reads 'Peter Achterstraat'.

Peter Achterstraat
Auditor-General

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Foreword

It is not easy amalgamating government departments and at the same time continuing the delivery of services.

This performance audit assessed whether amalgamations delivered benefits in cost savings and improved co-ordination of services.

We found that these benefits are more likely to be achieved when agencies have common industries, customers, activities and locations. One of the audit's two case studies was more successful because there were more synergies.

In relation to the Department of Primary Industries, early commitment to planning the amalgamation, supported by quick action in implementing it was another success factor. This focus helped make the most of the available synergies.

Governments need to make amalgamations as clear as possible. And the new executive team must quickly translate the objectives and purpose into solid plans and be accountable against them.

The audit found that the savings targets for the two amalgamations were substantially met.

Produced in parallel with the audit is a better practice guide for managing the implementation of an amalgamation. It incorporates lessons learned in the audit's two case studies and a review of literature on the topic. There are currently no handy references available for those charged with implementing an amalgamation and the guide is designed to fill this gap.

Peter Achterstraat
Auditor-General

March 2008

Executive summary

Executive summary

The focus of our audit

The NSW government has amalgamated a number of departments.

Amalgamating departments requires careful management. Amalgamation can provide benefits, such as better coordination of activities resulting in improved services and cost savings through reduction in duplication of roles and systems. But they risk creating dislocation and uncertainty for the organisation, its staff, its suppliers, and its clients and customers.

The objective of this audit was to assess if departmental amalgamations in NSW are being managed to achieve the intended outcomes and benefits. In particular we asked if amalgamations are:

- well planned
- implemented according to plan
- evaluated to determine if outcomes and benefits are achieved.

We also prepared a guide to assist departments involved in future amalgamations. The guide, *Better Practice - Implementing Successful Amalgamations*, accompanies this report.

We reviewed literature on amalgamations in both the public and private sectors. We also conducted two case studies of the amalgamations that created the NSW Departments of:

- Commerce, occurring on 2 April 2003, and
- Primary Industries (DPI), occurring on 1 July 2004.

Amalgamations between departments generally arise from policy decisions by government. It is not our role to examine the merits of those decisions. We only examined their implementation and outcomes.

Opinion

Both Commerce and DPI substantially achieved their stated amalgamation savings objectives as set by government. The departments are expected to achieve savings targets of about \$150 million and \$190 million respectively over their first four years.

Our analysis indicates that there are two key factors in successful amalgamations. The first is effective early planning by departments based on clear objectives, supported by quick action. Second, significant synergies in service delivery can be achieved when departments with similar services and customers are amalgamated. The Department of Primary Industries is an example.

The synergies available from the Commerce amalgamation were not as great as DPI's. We found that Commerce has a diversity of customers and services basically unchanged since pre-amalgamation. It operates as a federation of semi-independent organisations providing specialist services to different sectors of the NSW economy. A 2006 study for the government sees value in breaking Commerce up and amalgamating its components with other departments with better synergies and benefits.

We identified two key opportunities to improve the management of amalgamations. First, planning must build on the benefit of synergies arising from similar responsibilities and clients. This planning process must commence as soon as amalgamation decisions are made by government. We have included two guides to assist with the management of the implementation, to gain the best from the synergies of amalgamation.

Second, there is no formal review of whether anticipated outcomes and benefits of the amalgamations are achieved. We consider these reviews should be promoted and included in the annual reports of the amalgamated departments for three years following amalgamation.

Key findings

Chapter 1 - Introduction to amalgamations

The NSW government supports the principle of reducing the number of budget funded departments by appropriate amalgamations. The policy was outlined in the Premier's *Economic and Financial Statement* and supported by the *Audit of Expenditure and Assets Report* prepared for the government (both of February 2006).

Another driver is the *State Plan*, released in November 2006. Although it does not specifically mention amalgamations, it does require significant joint working between departments. This may lead to pressure to amalgamate departments.

When departments are amalgamated, consolidating 'back office' operations is currently a significant source of cost saving. The government's Shared Corporate Service Strategy, focussed on reducing 'back office' costs, will diminish this opportunity. This will result in a future focus on amalgamations where service delivery synergies provide savings and improved customer service in 'front office' operations.

Our study of both private and public sector amalgamations has identified better practice approaches to managing them. These key learnings are incorporated into the *Better Practice Guide - Implementing Successful Amalgamations* which accompanies this audit report.

The consultation immediately after the Government's decision has an influence on finetuning the structure of the amalgamation. This consultation between the affected agencies and central agencies is part of the initial planning for implementing the amalgamation. Issues addressed include identifying the staff to be transferred, the acts or sections of acts to be administered by each agency, and how budgets, assets and liabilities are to be apportioned between the agencies. To assist with the steering group's consultations we have produced a checklist of issues for consideration (Appendix 2). The checklist is designed to complement the separate Better Practice Guide (BPG).

Chapter 2 - The Department of Primary Industries

The amalgamation creating the Department of Primary Industries is achieving budget savings and making progress towards achieving the other objectives of giving rural NSW a stronger voice in government and providing better service to customers and stakeholders.

The new department demonstrated a clearly defined and structured approach to planning the amalgamation. Baseline measures, to track the achievement of budget saving benefits, were captured at the outset by Treasury. Other more qualitative benefits, related to delivering improved service and providing industry with a more coherent voice, are now also being measured by DPI.

Achievements under the Change Implementation Plan were monitored and reported by identified staff responsible for amalgamation. We are advised that corrective action, although not well recorded, was taken when required. Saving targets were reviewed monthly in conjunction with Treasury and the Cabinet Office.

There has been no formal evaluation of the success of the amalgamation, but progress evaluations have been conducted. The amalgamation substantially met major targets during the first two years. In the second year the dividend distribution from Forests NSW (a commercial trading division of DPI) failed to maintain the targeted \$20m increase. The increased dividend was largely based on operational efficiencies within Forests NSW and not amalgamation related.

Chapter 3 -The Department of Commerce

The amalgamation creating the Department of Commerce is meeting the saving objective set by Treasury. There were no other objectives formally defined.

As with Forests NSW, mentioned above, significant amalgamation savings objectives were based on efficiencies from within the former Department of Public Works and Services; the majority of these savings could have been achieved without an amalgamation.

The Department of Commerce did not adopt an overall strategic approach to amalgamation planning - it adopted a number of approaches over time. In our view, the amalgamation would have benefited from more effective early planning based on clear objectives.

Staff responsible for amalgamation activities were identified at the planning stage. Activities supporting amalgamation were monitored and reported for a limited period during the amalgamation, and when required necessary corrective action was taken and recorded. Although a comprehensive saving plan was not created, it was evident that savings was the focus of considerable attention.

Baseline measures, to track the achievement of budget saving benefits, were captured at the outset by Treasury. There has been no formal evaluation of the success of the amalgamation, but a number of progress evaluations have been conducted. The amalgamation met the defined saving targets during the first three years.

Recommendations

It is recommended that central agencies and agencies promote:

- the *Checklist* (Appendix 2) to assist officers during the consultative steering group phase where details of the government's amalgamation decision are clarified to prepare for department's management of the amalgamation (page 14)
- use of the *Better Practice Guide - Implementing Successful Amalgamations* by officers responsible for implementing amalgamations (page 18)
- review of achievement of anticipated amalgamation outcomes and benefits. Results to be included in the annual reports of the department for the three years following amalgamation. This also applies to restructures which add activities to departments (page 14).

Response from the Department of Premier and Cabinet

Thank you for your letter providing the draft performance audit report - Managing Departmental Amalgamations, Department of Commerce, Department of Primary Industries and Implementing Successful Amalgamations - A better practice guide - for managing the amalgamation of government departments. As requested by you, this letter provides the comments of the Department of Primary Industries (DPI), the Department of Commerce (Commerce) and the Department of Premier and Cabinet (DPC).

I note that the report acknowledges the achievement of savings in the order of \$340m over four years resulting from the amalgamations of a number of smaller agencies into DPI and Commerce.

The two case studies show that governments amalgamate agencies as the need arises. This may occur during the term of a government (as was the case with DPI) or immediately following an election (as occurred with the creation of the Department of Commerce). The lead time will vary depending on the priorities and concerns of the government of the day.

The DPI merger had three months lead time for a staged approach. The successful execution of this amalgamation has been well documented in the report. The keys to the success of the amalgamation have been: the drive, determination and clear focus of the Minister; the appointment of an interim board between announcement and implementation; the early appointment of the Director-General and a cohesive executive and senior management; extensive planning; effective consultation and regular communication with staff and stakeholders; and the hard work and dedication to the task by every member of staff throughout the Department.

The Audit Office report acknowledges that the objectives of the amalgamation were well planned and clearly defined. In consultation with staff and other stakeholders, a Change Implementation Plan was developed for the first year of operation and a Corporate Plan for the subsequent three years. These Plans were given considerable momentum by clearly assigning accountability, including timeframes for achievement, to senior managers across the organisation. I am advised that the "Building DPI" program to promote focus on "One DPI" was attended by 95% of the Department's staff and was instrumental in clarifying the plans and objectives of the Department at all levels of the organisation.

The amalgamation of DPI has resulted in rural NSW and in particular the agriculture, fisheries, forest and minerals industries now having a stronger voice in government. As a result of the amalgamation, DPI has been able to bring together the support in government of these closely linked rural based primary industries in NSW and provide better services to the department's customers and stakeholders.

The establishment of Commerce occurred immediately after the 2003 NSW State election. On 2 April 2003 a Special Supplement in the Government Gazette was issued announcing the appointment of Ministers and the Allocation of Administration of Acts, making machinery of government changes including the establishment of Commerce, effective immediately.

Despite the short timeframe to establish Commerce, significant achievements have resulted. The report found that the Commerce amalgamation is expected to deliver savings targets set by Treasury of \$150m over its first four years to 2007-08. I am advised that Commerce has met its performance targets following the amalgamation and has continued to grow with further business groups added including the State Records Authority, Corporate Shared Services, elements of Department of Natural Resources and NSW Businesslink.

In addition to savings identified, Commerce has indicated that other financial benefits flowed from the amalgamation which included rationalisation of a number of non-core business including Q Stores, CM Solutions and the State Mail Service which were sold to the private sector realising \$13m for government.

Using the experience drawn from these two amalgamation case studies and other research, the Better Practice Guide - Implementing Successful Amalgamations provides a planning framework for agencies undergoing amalgamations. It provides a summary of key questions and specific action checklist to assist agencies with the process.

I note that the Audit Office has proposed that results and outcomes from amalgamations be reported in departmental annual reports for three years following amalgamation. However it is preferred that results and outcomes be incorporated within existing performance management systems of new entities. This will enable more efficient reporting via mechanisms such as the State Plan, Results and Services Plans and management reporting rather than establish an additional reporting regime.

The Audit Office report shows clearly that significant benefits can arise from agency amalgamations. These benefits include service delivery improvements, greater organisational coherence and improved efficiencies. As you know, one of the major initiatives implemented since these amalgamations was the establishment of the Performance Review Unit in my department. The work of this unit will assist in ensuring that decisions on the structure of agencies and services are based on sound evidence arising from a systematic review program.

Thank you for the opportunity to respond to the report.

(signed)

*Robyn Kruk
Director General*

Dated: 22 February 2008

1. Introduction

At a glance

The NSW government supports the principle of amalgamating departments, and has put this principle into practice. More departmental amalgamations can be expected.

Studies of both public and private sector amalgamations provide key approaches and practices to be followed in such cases, and these have been incorporated into our *Better Practice Guide - Implementing Successful Amalgamations* released in conjunction with this audit report.

Working in tandem with amalgamations is the current government program, the Shared Corporate Services Strategy. It aims at reducing the cost of 'back office' support services (such as finance, human resources, IT and office services) through a smaller number of service providers, a narrow range of technologies and simpler administrative processes.

The greater the success of the Shared Corporate Services Strategy, the less the savings available from consolidating back office services. This will provide greater focus for planning amalgamations where the benefits from service delivery synergies can be realised by bringing together departments with similar services and customers.

1.1 What is the NSW government approach to amalgamating departments?

Government policy

The NSW Government supports the principle of amalgamating departments to reduce the number of budget dependent agencies. The Premier's *Economic and Financial Statement (Premier's Statement)* of February 2006 noted that amalgamations would enable the government to reallocate spending priorities and drive further efficiencies, and improve the services provided for the community.

The *Premier's Statement* listed the potential benefits of reducing the number of budget dependent agencies in NSW. This list was first identified in the *Audit of Expenditure and Assets Report* prepared for the NSW Government (*Independent Review*), also released in February 2006.

Benefits of amalgamation in NSW government

Benefits of amalgamation were seen to be:

- a better focus on overall strategic results for portfolios currently split across two or more agencies
- internalising individual business-unit allocation decisions within a single portfolio will allow a wider range of priorities to be compared and assessed
- greater opportunities to combine and move resources within a portfolio and manage whole processes previously split between agencies
- improved synergy between like-operating functions across otherwise diverse portfolio areas, with only high-level policy and purchaser functions separated
- a logical and rational organisation of agencies will improve information, decision-making, resource allocation and value for money through better coordination and reduced duplication
- savings of scale leading to efficiencies, particularly in non-operational and management areas such as corporate services

- enabling the Budget Committee of Cabinet to concentrate on allocating funding between major portfolio areas, rather than making numerous and time-consuming decisions about many small individual agencies
- enabling the Budget Committee of Cabinet to review key agency business plans, including joint financial and operating plans, and more effectively manage Budget resource allocation.

Targeting NSW budget dependent agencies

In 2006 the *Independent Review* prepared for government identified that the NSW government then had over 100 general government agencies, with 69 budget dependent agencies and 39 public trading organisations. It noted that NSW had rationalised some agencies with the creation of a number of enlarged departments, including the Department of Commerce and the Department of Primary Industries (which are the two case studies in this audit).

Interstate comparison

It compared the number of budget dependent agencies in the various state jurisdictions at that time:

NSW	69
Western Australia	67
South Australia	32
Queensland	31
Tasmania	16
Victoria	11

The *Independent Review* recognised that benefits from amalgamation are longer term, as they arise from improved service delivery and reduced transaction costs. However, it also recognised that the costs of reorganisation may be immediate, with relocation expenses, costs of new systems, and employee-related costs including award alignment and redundancies.

Amalgamation - criteria for developing departmental groupings

The *Independent Review* identified criteria to be applied for developing groupings of agencies:

- reduce policy overlap, duplication and potential cross-agency activities and ensure clear agency objectives, with no two agencies trying to achieve the same result or delivering the same service or function
- achieve economies of scale
- separate regulatory functions from service delivery functions
- separate commercial activities from budget dependent activities.

Possible rearrangements of NSW departments

These criteria and related matters were considered by the *Independent Review* authors and led them to propose eleven agency groupings for NSW, one of which has since been implemented. This was the amalgamation on 3 March 2006 which brought together about 12 departments and smaller agencies (such as The Film and Television Office and State Sports Centre Trust) to create the Department of Arts, Sport and Recreation.

Other possibilities discussed in the *Independent Review* included dissolution and regrouping of elements of the two recently created major departments which are the case studies in this audit. It was considered that two new major departments could be:

- Commercial Regulation - to include the Office of Fair Trading and Office of Industrial Relations from the Department of Commerce,
- Government Services - based on NSW Procurement, Office of Public Works and Services, Central Corporate Services Unit, and Businesslink, all now in the Department of Commerce.

The *Independent Review* considered opportunities to reallocate segments of the Department of Primary Industries, with its regulatory, resource management and economic development functions; but was less positive about the possible benefits from such a reorganisation.

Moving forward

The *Premier's Statement* acknowledges that the *Independent Review* is the starting point for future analysis. Moving forward, we consider the combination of the:

- benefits of amalgamation listed in both the *Premier's Statement* and in the *Independent Review*, and
- criteria for developing departmental groupings, presented in the *Independent Review*

to be points to be considered in future amalgamation planning. We reported these benefits and criteria earlier in this chapter.

A further driver for change is the *State Plan* released in November 2006. Although amalgamations are not a specific strategy included in that document, there is a requirement for many targets to be met by joint working between departments. This may lead to pressure to consider amalgamation of departments or areas of different departments providing complementary services to customer groups.

1.2 What do public sector amalgamation studies show?

United States amalgamation case studies

An August 2003 Harvard University study *Making Public Sector Mergers Work* included a review of five separate agency amalgamations at the major city or state government level in the United States. The major lessons learned are incorporated in the *Better Practice Guide* released in conjunction with this audit report.

Three amalgamations were in the health area, bringing together mainstream health services with mental health services or services for the ageing. Another drew together agencies providing regulatory and licensing services for private enterprise service providers and for private sector customers. The fifth example drew together agencies driving state economic development.

A common factor in all cases was that the services brought together were either:

- similar, with the same potential customers (eg the merger of the economic development agencies), or
- part of a continuum of services to be drawn on by members of the community as need arose, enabling the amalgamated providers to utilise synergies to integrate their technology and services to provide better customer service.

The US Government Accountability Office (GAO) released a study in July 2003, titled *Implementation Steps to Assist Mergers and Organisational Transformations*. This document, based on a study of a number of private and public sector mergers, recommended nine key practices to be followed in the amalgamation process. These lessons are incorporated into the *Better Practice Guide* released with this report.

UK amalgamation case study

In July 2006 the UK National Audit Office (NAO) released a report on the creation of the UK communications regulator, Office of Communications (Ofcom). Ofcom was created late in December 2003 by the amalgamation of the five existing communication regulators. The NAO report includes a *Good Practice Guide*, whose major lessons are also incorporated into the *Better Practice Guide* released with this audit report.

Although this NAO report was based on the amalgamation of five relatively small specialist regulators, the NAO sees its better practice findings to be of general application.

As with the US case studies reviewed above, the UK merger was between agencies with similar responsibilities and clients - in this case management of the licensing and regulation of radio, television, telecommunications and the radio spectrum in the UK.

Synergy - a common feature of overseas case studies

A common feature in all overseas case studies is that amalgamations are designed to bring together agencies with similar responsibilities and clients, permitting use of synergies to create a combined agency that can provide a suite of services to a coherent client base.

1.3 What happens immediately after a government decision to create an amalgamation?

Government's decision

Governments make decisions about amalgamations. Most importantly they decide what functions will be performed by new departments and when they will be created. A range of benefits influence the Government, as indicated above. The decisions frequently occur quickly, particularly after elections. This can create tight time frames. The decisions made soon after March elections also have implications for the Budget process as departmental and portfolio budget details need to be finalised quickly for the Budget in June.

This audit reviewed the implementation of the amalgamations following the Government's decision. It did not review how the decision making process is informed.

Consultation after the government's decision

The consultation immediately after the Government's decision has an influence on finetuning the structure of the amalgamation. This consultation between the affected agencies and central agencies is part of the initial planning for implementing the amalgamation.

Issues addressed include identifying the staff to be transferred, the acts or sections of acts to be administered by each agency, and how budgets, assets and liabilities are to be apportioned between the agencies.

The Department of Premier and Cabinet (DPC) leads a steering group comprising CEOs and senior officers of the affected agencies and Treasury. The greater the clarity achieved in the steering group process, the greater the clarity of objectives and purpose taken into the new agency and integrated into amalgamation planning; and later integrated into corporate plans and Results and Service Plans (RSPs) for the new agencies.

An important task for the consultation relates to the implementation of the Administrative Orders and Public Sector Employment and Management (General) Orders drawn up following the government's decision. The steering group provides advice to the Director General of the Department of Premier and Cabinet on the implementation of the orders governing allocation of activities and staff. Treasury leads discussions regarding the reallocation of budgets and assets/liabilities and any transfers approved by the Treasurer under Section 24 of the *Public Finance and Audit Act 1983*.

The steering group considers issues such as:

- what is likely to work in a new structure - for example, barriers and opportunities within the parameters of the Government's decision
- risks and challenges to implementation - for example, maintaining delivery of State Plan priorities and business-as-usual activities
- timeframes and indicators of success - for example, achieving savings and improved delivery of services
- key actions necessary to achieve savings targets and budgets - for example, consolidation of activities and service synergies.

1.4 Checklist for the consultation period

To assist with the steering group's consultations we have produced a checklist of issues for consideration. The checklist is designed to precede the Better Practice Guide (BPG) for leaders in departments who are implementing amalgamations. The BPG was produced in parallel with this audit. The checklist is included at Appendix 2.

The checklist also applies to other less significant amalgamations and restructures across government, or within portfolios and departments. These simpler amalgamations receive less involvement of central agencies and are generally directed by the host department or agency.

Recommendations It is recommended that central agencies and departments promote:

- the *Checklist* (Appendix 2) to assist officers during the consultative steering group phase where details of the government's amalgamation decision are clarified to prepare for department's management of the amalgamation
- review of achievement of anticipated amalgamation outcomes and benefits. Results to be included in the annual reports of the department for the three years following amalgamation. This also applies to restructures which add activities to departments.

1.5 What do private sector amalgamation studies show?

Mergers and acquisitions in the private sector

In the private sector the process that parallels amalgamation of government departments and agencies is the practice of mergers and acquisitions (M&As).

The term covers mergers, where near equals are brought together for the benefit of both sets of shareholders, and acquisitions, where a minor company is bought in (acquired) by the major company for the prime benefit of the major company (at a price acceptable to the minor company). A merger may have a major impact on the structure and staff of the two companies, requiring significant 'whole of company' planning and redefinition of company culture; while an acquisition may only significantly affect the added company, whose staff may be expected to adopt the culture of the major company.

Somewhat similar mergers are seen in the public sector, where agencies of a similar size may be brought together in an amalgamation, with a total review of structure and culture, where in other cases small agencies are added to existing major departments. However, in the public sector case, contrary to the private sector, the re-positioning of a small agency may be for the better placement and of greater benefit to the smaller agency, rather than primarily benefit the major department to which it is now attached.

High failure rate of M&As

There is much private sector literature available on M&As, especially as many fail to add the anticipated value to shareholders.

Consequently, the literature on commercial M&As focuses on advising those who are planning and/or implementing them. It identifies similar lessons to those flowing from the government amalgamations. What is notable in the private sector is the emphasis on the need for adequate planning to determine if there is value to be gained from bringing in another party as part of a merger or acquisition.

Synergies important

A common theme in the private sector is the need to recognise and value potential synergies between the parties to be brought together. As one paper puts it 'Boards of Directors and investors will demand...acquisitions will take place only when there are identifiable, quantifiable and operational synergies'.

Synergies could be expected to arise both in the back office and in the front office. Back office savings result from amalgamating/standardising IT, HR and finance activities. Front office savings arise from a commonality in services and customers, permitting amalgamation of offices and customer service centres and reduction in staff providing direct customer service, with no reduction - at the very least - in service level.

1.6 Are there lessons to be learned from previous amalgamations in NSW?

Disruptive amalgamations in the public sector

Some sections of government have a history of a series of amalgamations to align with new administrative arrangements. In many cases the continued movement of functions is disruptive and costly. Not only must the new functions be merged into existing or newly created departments but must have all the associated responsibilities closed down and transferred. This involves reconciling, reporting and transferring assets and liabilities, and transferring responsibilities held under legislation. The costs on staff morale can also be high as they must contend with uncertainty regarding their continued employment and career.

A well recognised example of multiple amalgamations and de-amalgamations is the former Department of Infrastructure, Planning and Natural Resources (DIPNR). Established on 1 July 2003, just following the creation of the Department of Commerce, it brought together groups from Premier's Department, the former Department of Planning, the Transport Ministry, and the Department of Land and Water Conservation. Prior to this amalgamation these elements were temporarily 'housed' in two transitional short term departments: the Department of Sustainable Natural Resources and the Department of Urban and Transport Planning, from 2 April 2003.

DIPNR was de-amalgamated two years later on 29 August 2005 with the creation of the new Department of Planning and the Department of Natural Resources.

The Department of Planning was expanded in March 2006 when the Heritage Office was added to it.

The Department of Natural Resources lasted less than two years until it was de-amalgamated in April 2007. Its activities were absorbed into the former:

- Department of Environment and Conservation, which became the Department of Environment and Climate Change
- Department of Energy, Utilities and Sustainability which became the Department of Water and Energy
- Department of Lands, which acquired responsibility for management of Western Lands.

1.7 How does the NSW government approach to back office savings assist amalgamations?

Common to all amalgamations is for savings to be made consolidating back office operations, as well as from front office efficiencies largely discussed above.

NSW government Shared Corporate Service Strategy

The NSW government has a longstanding focus on back office savings - known as its Shared Corporate Service Strategy. Our 2004 performance audit 'Shared Services: Realising the Benefits' found that the strategy was not achieving the expected savings.

In 1995 the government adopted corporate service reform as a key priority for the public sector. In 1996 it established the Central Corporate Services Unit (CCSU) as its first provider of shared services, by amalgamating the corporate services staff and assets of 11 agencies.

The 2002 revised Shared Corporate Services Strategy envisioned savings in the key corporate services areas of human resources, finance, information technology and office services by agencies following one of three sharing options:

- organising a sharing (cluster) arrangement with other agencies
- setting up an internal shared services unit within an agency
- using CCSU.

One consequence of the 2002 Shared Corporate Services Strategy was the formation of *Businesslink*, a business initially developed to manage the corporate services sharing between three large departments. Now, along with CCSU, it is a business unit within the Department of Commerce.

The eight departments initially involved in the two amalgamation case studies in this audit used to provide their own corporate services, and each amalgamation was expected to generate savings by consolidating these back office activities.

Mixed results of the Strategy

The Shared Corporate Services Strategy is seen to have generated considerable savings for government. But as reported in Premier's Department Circular 2007-12 of April 2007, expenditure on corporate services in the public sector is about 4% of department expenditure, compared to 2% in the private sector, the NSW government wants to accomplish more. This Office's 2004 performance audit report on the implementation of the Strategy not only concluded that savings were not being realised to the extent desired but that revision of the Strategy was required.

Under the 2007 Revised Corporate Services Strategy the aim is to move towards a smaller number of shared service providers using a narrow range of technologies and fewer and simpler administrative processes. It is expected to reach the position where back office approaches will be so standardised it will not matter if responsibility for activities (and the associated staff) are moved between departments, because either the systems will be identical, or it will become irrelevant who manages payroll and other fixed activities; with standard approaches the work can still be provided by the former host department.

When this situation is achieved, savings from back office consolidation will cease to provide a significant benefit for agency amalgamation - these savings constituted major objectives in the two case studies we reviewed in this audit. Conversely, this will reduce the cost of moving activities between departments, and will provide greater flexibility, efficiency and effectiveness in the way government arranges the provision of public services by departments.

1.8 About the better practice guide

One focus of our audit was to look at the better practices for managing amalgamations and to prepare a *Better Practice Guide* to assist officers working in departments created by, or subject to, amalgamation.

As well as reviewing our two case study departmental amalgamations (NSW Departments of Commerce and Primary Industries), we were also informed by studies on amalgamations in the public and private sectors, both in Australia and overseas.

The resulting document is *Better Practice Guide - Implementing Successful Amalgamations*, which is issued in conjunction with this audit report.

Recommendation It is recommended that central agencies and agencies promote use of the *Better Practice Guide - Implementing Successful Amalgamations* by officers responsible for implementing amalgamations.

1.9 About the audit

Our audit seeks to determine whether amalgamations are being managed to realise intended outcomes and benefits. As part of our audit we reviewed two case studies against the following lines of inquiry:

- Was amalgamation well planned?
- Was amalgamation implemented according to plan?
- Was amalgamation evaluated to determine if intended outcomes and benefits were achieved?

Full details of audit criteria and approach are provided in Appendix 1.

Our findings in relation to the two case studies appear in the following chapters:

Chapter 2 - Department of Primary Industries

Chapter 3 - Department of Commerce.

2. Department of Primary Industries

At a glance

The key question we wanted to answer was:

Is the amalgamation that created the Department of Primary Industries being managed to realising intended objectives?

Our assessment:

Overall, the amalgamation of the Department of Primary Industries was well planned and implemented to achieve amalgamation objectives. The amalgamation created synergies. It was possible to create a structure to maximise the benefits of common services to common primary industries customers.

The amalgamation is achieving budget savings [\$36.9 million in the first year, rising to \$58.1 million in the fourth and subsequent years] and making progress towards achieving the other objectives of giving rural NSW a stronger voice in government and providing better service to customers and stakeholders.

Three months notice of the amalgamation allowed development of a new structure with senior staff in position and an amalgamation implementation plan.

The Department of Primary Industries (DPI) was created on 1 July 2004 by the amalgamation of:

- the Department of Agriculture
- the Department of Mineral Resources
- NSW Fisheries
- State Forests (subsequently renamed Forests NSW).

Approaching amalgamation

Three months notice of amalgamation was provided when it was announcement in the Treasurer's Mini-Budget speech on 6 April, 2004. This gave the new department a 'running start'.

An interim Board was established in April. It in turn established Working Groups to examine the best way to bring together the new partners to create the new structure.

Synergies

The agencies amalgamated into DPI had similar cultures - science based and customer focussed. The similarity of clients and services facilitated greater integration of activities.

These synergies were incorporated into the structure developed for the new department - former separate departments for agriculture and fisheries were combined within one new division, while research activities from all former departments were merged into a single research division.

Early appointments to senior positions were achieved:

- A new Director-General was announced by the Minister on 12 May 2004, six weeks prior to amalgamation, and he then worked with the interim Board
- The executive structure, and appointments to Deputy Director-General positions, were announced on 24 June 2004
- Appointments to remaining executive positions were announced on 1 July 2004, the day of amalgamation
- Branch structure and interim appointments at branch head level were announced on 21 July 2004.

The new department was formed with its head office located in the former offices of the Department of Agriculture, Orange.

The amalgamation coincided with the relocation of the Department of Mineral Resources and staff from Sydney to Maitland. As consolidation of back office services was to provide one source of amalgamation cost saving, Mineral Resources human resources back office staff left the organisation rather than relocating. This placed significant pressure on the newly developing Primary Industries consolidated back office staff to service the Mineral Resources group.

Total staff numbers on amalgamation were over 4,000, which has subsequently fallen by about 400.

2.1 Was the amalgamation well planned?

Our assessment	The amalgamation at DPI was well planned, with a clear focus in the first year on bringing the departments together to achieve the amalgamation objectives. The saving objective was the most readily measurable, while the other objectives provide the more qualitative reasons for the amalgamation and had an impact on the speed and acceptability of the plan's implementation.
Clarity of objectives	<p>Objectives of amalgamation were clearly defined in Ministerial statements and Treasury documentation in the three months between the amalgamation announcement and implementation.</p> <p>Objectives were to:</p> <ul style="list-style-type: none"> ▪ achieve budget savings - \$36.9 million in the first year, rising to \$54.7 million in the second year, then gradually over the years to \$58.1 million for the fourth and subsequent years ▪ give rural NSW a stronger voice in government ▪ provide better service to customers and stakeholders. <p>When objectives were set, the budget savings were seen to be achievable from a number of activities including back office rationalisation, co-location of offices, program efficiencies and increased cost recovery. A significant contribution to this objective was an ongoing \$20 million increase in Forest NSW's annual dividend distribution to the NSW Government. This represents about a third to a half of total amalgamation savings. Forests NSW is a Public Trading Enterprise which pays Treasury a dividend distribution comprising the declared dividend plus tax equivalents paid in lieu of taxes otherwise payable to the Commonwealth. It keeps separate financial accounts, which has impaired its ability to fully integrate back office activities with the rest of DPI.</p>
Clarity of plans and budgets	<p>The Department of Primary Industries demonstrated a clearly defined and structured approach to planning the amalgamation. Activities during the first year of amalgamation were managed under the Change Implementation Plan (2004-05), which focussed on implementing the new structure, achieving the savings objective, integrating accommodation, and maintaining service delivery.</p> <p>There was no separate budget for amalgamation costs. Voluntary redundancies were funded by Treasury.</p>

Planning for future years commenced during the first year, and a draft Corporate Plan 2005-2008 was developed. This enabled preparation of divisional business plans for (initially) 2005-06, so that the Corporate Plan and annual business plans could be approved and ready to commence at the beginning of the second year on 1 July 2005.

During the first year there was no formal planning for the two principal amalgamation benefits:

- providing rural NSW a stronger voice in government
- providing better service to customers and stakeholders.

However, they influenced the approach to amalgamation during the first year. For example, the program to make savings by closing selected research centres had to be modified to address stakeholder concerns that local research capacity would be lost. In the second year they appeared formally as Key Result Areas under the Corporate Plan (2005-2008), and within 2005-06 divisional business plans.

Making staff accountable for amalgamation

The Change Implementation Plan (2004-05) identified the position of executive level staff responsible for activities required by the Plan. These senior staff had been appointed by the commencement of the plan.

The Corporate Plan 2005-2008 did not identify staff responsible for activities. This is because many parts of the organisation were expected to contribute to Corporate Plan outcomes over the years. However, the annual divisional business plans created to contribute to the Corporate Plan did identify those responsible for achieving elements of the business plan.

Good practice

Culture change program

In the final months of the first year of amalgamation, a program called 'Building DPI' was run for all staff to promote a focus on 'One DPI'. It was attended by 95% of staff. Surveys carried out pre and post workshops showed an increase in between 15% and 30% in staff understanding of DPI stakeholder expectations, the consequent DPI vision, and DPI strategies to achieve the vision.

It is considered that 'Building DPI' worked well and was not offered too late after amalgamation commencement. 'Topped off the first year!' was one comment.

Capture of baseline measures

Contemporary management practices require that baseline measures are identified to track the achievement of objectives.

Baseline budget measures were known to Treasury. Annual savings targets were determined by Treasury prior to amalgamation, following analysis of saving available from amalgamation.

Baseline measures for objectives of:

- giving rural NSW stronger voice in government
- providing better service to customers and stakeholders

were more qualitative and aspirational and not identified at the commencement of the amalgamation. DPI subsequently set annual targets to measure activities supporting the two objectives.

2.2 Was the amalgamation implemented according to plan?

Our assessment We found that amalgamation plans were followed and corrected when appropriate.

Monitoring and reporting, and corrective action The Change Implementation Plan (2004-05) and annual business plans under the Corporate Plan 2005-2008, which succeeded it, were monitored and reported quarterly to the department's Board of Management. Although not documented, we were advised that any concerns were discussed and any appropriate corrective action was taken.

There was monitoring of saving achievements, and strategies changed where initial approaches did not provide desired savings.

Progress against the Change Implementation Plan and the Savings plan was discussed at monthly meetings involving senior officers of the department, Treasury and the Cabinet Office. The Minister also made regular reports to the Service Provision and Financial Management Committee (later the Expenditure Review Committee) of Cabinet.

In 2004-05 the department met its first year major objective by achieving the saving target of \$36.9 million.

The other two objectives of amalgamation - to 'give rural NSW a much stronger voice in government', and to 'provide more effective and efficient services to customers and stakeholders', were not the subject of specific activities under the Change Implementation Plan in the first year.

In the second and subsequent years these benefits were key result areas in the Corporate Plan 2005-2008, and were planned and reported upon in quarterly reports, and subsequent annual reports.

Good practice

Progress Report - the first 100 days of DPI

In October 2004 the Director-General provided a 'Progress report on the first 100 days of DPI' to the two responsible Ministers - the Minister for Primary Industries and the Minister for Mineral Resources.

He reported upon key achievements during the period - not only on staff activities and outcomes, but also on approaches to organisational and culture change.

Variations to plans and objectives

Changes to plans and objectives agreed by management were not formally minuted, but were left to the relevant Board of Management (BoM) members to implement.

In March 2006 Treasury agreed to reduce the saving objective by \$2.5 million per annum from 2006-07 to compensate for savings forgone because of the Government decision not to close research stations.

In 2006-07, divisions were permitted to change business plan targets in the first six months of the year, but such amendments had to be reported to the BoM in the second quarterly report for the year. We observed reports of such changes to 2006-07 targets.

2.3 Did amalgamation achieve anticipated outcomes and benefits?

Our assessment The four former departments have been merged enabling most Treasury imposed savings targets to be met, and the additional objectives of improved customer service and industry voice are being progressed.

Evaluation of achievements There was no formal evaluation of the success of the amalgamation. Evaluation of progress occurred when preparing the first, and subsequent, 100 days report to the Ministers, when preparing Annual Reports, when preparing divisional business plans and when reviewing progress at staff planning seminars.

Budget saving targets were achieved within the budget funded part of DPI during the first two years of amalgamation (2004-05 and 2005-06).

These budget savings were assisted by significant income generated from cost recovery by the department's mineral safety and exploration activities. DPI advises that, following vigorous pursuit of the introduction of a mine safety levy to recover costs of its activities in that area, the levy is now raising approximately \$18 million per annum. Additionally, as a consequence of departmental activities to change the policy concerning the granting of mineral exploration licences, the department received a \$5.8 million budget supplementation following the \$100 million payment to government for the Caroon coal exploration licence issued in April 2006.

In the second year of amalgamation (2005-06), Forests NSW fell \$7.5 million short of its amalgamation annual target to increase dividend distribution by \$20 million. A reason for the failure to meet the increased dividend target has been attributed to a reduction in profit due to market forces in a competitive market place for timber products.

We consider that this increased 'amalgamation' dividend is not amalgamation related. It is largely based on efficiencies within Forests NSW that are independent of the DPI amalgamation. We believe that significant initiatives to increase dividend could have been implemented without involvement in amalgamation.

Actions, unrelated to amalgamation, that supported increased dividends by Forests NSW included:

- increased revenues from new forest products
- revision of prices and charges for some products and services
- reduction of some services
- voluntary staff reductions
- reduction in asset base through disposal of non-strategic assets
- re-investment of asset sale proceeds into technology and equipment to revitalise and further enhance profitability.

There were, however, some savings achieved through amalgamation:

- co-location of offices with other parts of DPI
- enhanced forest research by amalgamation of research activity
- utilisation of standardised policies and procedures
- standardisation of licences and shared communications services
- utilisation of centralised publication and design services.

DPI is making progress towards measuring the benefits of:

- giving rural NSW a stronger voice in government
- providing better service to customers and stakeholders.

It is measuring, monitoring and reporting on activities aimed at achieving these outcomes. It is too early to clearly measure the achievement of the outcomes.

Periodic performance reporting is provided quarterly to DPI management. Annual reports since amalgamation include case study examples illustrating activities undertaken to achieve these benefits, such as: one Minister speaking on behalf of NSW primary industry at the national level, and service improvements to customers and stakeholders from a unified primary industry service provider.

**Unanticipated
amalgamation
outcomes and
benefits**

No significant unanticipated benefits of amalgamation were identified by the department.

Although the cost recovery from mineral safety and exploration licence issue were new initiatives developed since the amalgamation, such sources of new income were foreseen by DPI management from the time of amalgamation.

3. Department of Commerce

At a glance

The key question we wanted to answer was:
 Is the amalgamation that created the Department of Commerce being managed to realise intended outcomes and benefits?

Our assessment:
 The amalgamation is achieving the intended budget saving objective, to achieve budget savings of \$21.9 million in the first year and \$41.9 million in the second and subsequent years.
 These savings were principally achieved by addressing operational issues within the former Department of Public Works and Services (DPWS).
 However, the amalgamation is not providing other benefits expected of an amalgamation, such as improved and lower cost customer service through synergies between amalgamated agencies when serving a common customer base. This is beyond the control of Commerce as it had no input into the selection of departments brought into this amalgamation.
 In contrast to the Department of Primary Industries, there was no advance notice of the intention to amalgamate.

The Department of Commerce (Commerce) was created on 2 April 2003 by the amalgamation of all or part of:

- Department of Public Works and Services (DPWS)
- Department of Fair Trading
- Department of Industrial Relations
- Department of Information Technology and Management (DITM).

Approaching amalgamation

There was no advance notice of the decision to amalgamate, and no opportunity to pre-plan for the amalgamation.

Synergy

There was little synergy between the agencies brought together by the formation of the Department of Commerce. Each incoming department became a division in the new department, except DPWS which became two separate divisions. Subsequently, information technology responsibilities brought into Commerce were redefined, creating synergies with NSW Procurement, (one of the DPWS residue divisions), into which the residue of the former DITM was subsequently subsumed. The lack of synergy is illustrated in the table below.

Division Activity	Fair Trading	DPWS & DITM (former)	Industrial Relations
Business Activities	Consumer protection: <ul style="list-style-type: none"> ▪ regulation ▪ education ▪ enforcement 	Contestable services to govt. agencies: <ul style="list-style-type: none"> ▪ public works ▪ procurement ▪ IT 	Industrial relations: <ul style="list-style-type: none"> ▪ regulation ▪ education ▪ enforcement
Clients/ Stakeholders	<ul style="list-style-type: none"> ▪ Traders ▪ Consumers ▪ Business ▪ Consumer advocates ▪ Industry assoc. 	<ul style="list-style-type: none"> ▪ Government agencies 	<ul style="list-style-type: none"> ▪ Employers ▪ Employees

Four years following amalgamation, some staff do not perceive the organisation as 'One Commerce', but as a federation of semi-independent organisations providing specialist services to different sectors of the NSW economy. We observed that the lack of customer service synergies has led to a lack of empathy between staff across the divisions comprising the organisation. Also, smaller divisions, who still do business in the same way with the same customers, see the request to follow standard procedures prepared for the large divisions in the new department as impairing their flexibility and efficiency.

Early appointments to senior positions were achieved:

- A new Director-General (from 'within' Commerce - the former Director-General of the Department of Industrial Relations) was appointed on 2 April 2003.
- An interim structure of divisions and branches was announced on 17 April 2003.
- Appointments (some interim) to positions directly reporting to the Director-General were also announced on 17 April 2003.

The final structure, including divisions and branches, together with the majority of senior staff appointed to lead them, was published in September 2003.

The new department was formed with its head office occupying the former DPWS 'McKell' Building, in the Sydney CBD.

On-going alterations

There has been considerable change since amalgamation, not only due to internal restructuring, but also the sale of some of its businesses, and addition and deletion of activities. Significant additions and deletions include:

- Government Printing, QStores and State Mail Service sold in 2005
- State Property Authority transferred out on 1 September 2006
- State Records Authority transferred in on 1 November 2006
- Valuation Services discontinued on 1 March 2007
- Businesslink and elements of the Department of Natural Resources transferred in during April and May 2007.

The amalgamation drew together a total of about 4,150 staff, which was subsequently reduced by about 1,000 over the first two years. This was prior to the net increase of approximately 700 staff with the changes in 2007.

3.1 Was the amalgamation well planned?

Our assessment

Commerce did not adopt a strategic approach for implementing amalgamation; rather it used a series of short term plans with little obvious connection. Consequently, we believe that Commerce could have better planned for amalgamation.

Lack of clarity of the objectives

Objectives and benefits were not clearly defined at the time the amalgamation was announced and commenced. There was no clear public statement explaining amalgamation objectives and benefits.

Objectives and benefits were developed progressively from the amalgamation date to achieve budget savings - \$21.9 million in the first year and \$41.9 million in the second and subsequent years.

The bulk of the savings were to be achieved from the former DPWS functions. An earlier study by the Council on Cost and Quality of Government had observed high senior staff and contractor numbers, excessive corporate overheads and overlapping activities with other agencies. The other departments entering the amalgamation were also expected to contribute to savings from back office consolidation and office co-locations.

Planning not linked

The Department of Commerce did not adopt an overall strategic approach to amalgamation planning. This led to several different planning approaches over the initial years.

There was no separate budget for the amalgamation process, although some supporting projects did have budgets and timelines. The cost of voluntary redundancies was funded by Treasury.

A Transition Implementation Plan process commenced in May 2003 to define an appropriate structure and appoint senior staff by the end of June 2003.

A corporate planning workshop in late July 2003 led to recognition of a number of 'corporate projects' that were required to achieve the objectives in a proposed (but never released) 2003 corporate plan. Some projects were required to meet 'business as usual' requirements, while others were amalgamation focussed. The project management system introduced with corporate projects required the approval of budgets and timelines, and incorporated formal reporting requirements. These projects were last formally reported to senior management in April 2004.

During the first year of amalgamation there was a continuing focus on planning for cost saving. Reports to Executive Committee meetings indicated savings being identified in areas within the former DPWS, and from integration of back office services.

Evidence of planning in the second year of amalgamation was sketchy, but available information indicated approaches were developed that were expected to achieve the bulk of the savings objective.

A Corporate Plan was drafted in mid 2004, but not released until November, as the 2004-09 Corporate Strategy. However, formal planning to meet corporate objectives was not in place until October 2005 when the 2005-08 Corporate Plan was produced.

In addition to the need to plan to meet the Treasury imposed cost saving objective, there were two other critical amalgamation projects:

- Business Model Review project (essentially focussed on addressing problems in the former DPWS), and the
- Integration of Corporate Services project.

Both commenced in 2003 as corporate projects, and were mostly completed by July 2004.

Making staff accountable for amalgamation

Staff responsible for successful amalgamation were identified at the planning stage.

The initial amalgamation project, the Transition Implementation Plan of May 2003, defined which groups had the responsibility to perform the work, and who had the authority to approve the outcomes from the various steps.

This was followed in August 2003 by allocation of the corporate projects to achieve corporate objectives. Accountability was allocated to named senior management staff.

Accountability for the three key amalgamation activities - Budget Savings, Business Model Review and Integration of Corporate Services (back office services) was defined as these activities commenced.

Integrating budget funded and ‘for profit’ functions

The Commerce amalgamation brought three conventional budget dependent agencies, supplying ‘free’ services to the public, together with one that provided services to other government agencies at a profit. The expectation was that, following amalgamation, businesses from within this income generating department, the former DPWS, would continue to generate tax equivalents and dividends for government.

This created the need for Commerce to determine the appropriate business model for each of its services, especially those provided by the former DPWS, to ensure that there was no cross subsidisation of (or by) income generating businesses within the new department.

This was a lengthy process, and as a consequence there was little significant change to former DPWS services, other than a related decision to sell off three businesses, within the first year of amalgamation. It was within the second year that the most significant reductions in staff occurred.

Baseline measures

Contemporary management practices require that baseline measures are identified to track the achievement of objectives.

Estimates of budget savings for the former DPWS were made by Treasury prior to the amalgamation. Treasury confirmed details of savings expected from all areas of the new department in October 2003.

3.2 Was the amalgamation implemented according to plan?

Our assessment

We found that amalgamation plans were followed and corrected when appropriate.

Implementing change

There was on-going corporate focus in the new department on resolving difficulties within the remnants of the largest incoming agency, DPWS. This consumed considerable time of the Executive Committee but was seen to be of little benefit to the staff of other amalgamated functions.

Monitoring, reporting and corrective action

Corporate projects (identified in August 2003) were monitored and reported at Executive Committee meetings in 2003. These included projects for Business Model Review and Integration of Corporate Services. These projects also had steering committees, which received regular reports.

Savings strategy was reported at most Executive Committee meetings in 2003 and early 2004, often as a verbal report. Executive Committee agendas and minutes reveal that there was significant activity attempting to identify opportunities for saving to meet the Treasury target.

Reporting on corporate projects was frequent in 2003 but limited in 2004. There were two formal quarterly reports presented in 2004 (in January and April). The quarterly report due in July 2004 was not presented to the Executive Committee; nor was any further quarterly report.

Minutes of relevant meetings generally indicate that corrective action was taken when required.

The department advised Treasury that it saved \$25.5m in the first year (2003-04), compared to the Treasury target of \$21.9m.

Record of approved variations to plans and objectives

Executive Committee meetings minutes indicated that records were kept of changes to plans.

Records from steering committee meetings for Business Model Review and Integration of Corporate Services provided a record of progress. There is little record of variations to plans and targets.

There were no changes to the Treasury imposed cost saving objectives.

The Commerce Corporate Service Integration project was due for completion in June 2004, and an internal customer survey was conducted at that time. It identified many areas for improvement. HR recruitment, overtime processing, finance reporting and all IM&T services were rated as poor, requiring continuing attention.

Changes were implemented in November 2004, in conjunction with the release of the Corporate Strategy 2004-2009 and associated organisation changes, but staff complaints continued. Following further review, in May 2005 there were further changes to the management and provision of corporate services.

3.3 Did amalgamation achieve anticipated outcomes and benefits?

Our assessment

The four former departments have now been merged enabling the Treasury imposed saving objectives to be met.

However, the amalgamation is not providing other benefits expected of an amalgamation, such as improved and lower cost customer service through synergies between amalgamated agencies when serving a common customer base. This is beyond the control of Commerce as it had no input into the selection of departments brought into this amalgamation.

Evaluation of achievements

There was no formal evaluation of the success of the amalgamation. Limited evaluations occurred in conjunction with preparation of Annual Reports and when reviewing progress at corporate planning seminars.

In August 2004 (about 16 months into amalgamation), the department received advice from Treasury. It expressed concern over progress with the amalgamation, especially in relation to former DPWS functions.

Based on a July 2004 Corporate Planning seminar, and later input, the Corporate Strategy 2004-09 (the first published Corporate Plan), was released in November 2004. Concurrently some organisational changes were implemented, including significant changes to the Corporate Services structure.

Savings achieved A major benefit expected to flow from the amalgamation was a saving to the state budget. In addition to exceeding the first year saving target, Treasury confirmed that Commerce achieved the savings target in each of 2004-05 and 2005-06 years.

We note that 80 to 90 percent of these ‘amalgamation’ savings come from addressing the operational issues within the former DPWS. These savings could, arguably, have been targeted by changes within the former DPWS without the need for involvement in amalgamation.

The amalgamation did combine the four incoming departments into one. However, Commerce does not show the uniform face that one would expect from the ‘better practice’ examples. Due to no fault of their own, the departments combined by this decision to amalgamate do not possess the synergies required to achieve this outcome.

There were no significant unanticipated benefits of amalgamation identified by the department.

Appendices

Appendix 1 **About the audit**

Audit objective This audit's objective was to assess if recent departmental amalgamations are realising intended benefits such as cost savings and improved coordination.

A complementary objective was to produce a Better Practice Guide to assist officials involved in future departmental amalgamations.

Lines of inquiry In reaching our opinion against the audit objective, we sought to answer the following questions:

1. Was amalgamation well planned?
2. Was amalgamation implemented according to plan?
3. Did amalgamation achieve anticipated outcomes and benefits?

Audit criteria In answering the lines of inquiry, we used the following audit criteria (the 'what should be') to judge performance. We based these standards on our research of current thinking and guidance on better practice. They have been discussed, and wherever possible, agreed with those we are auditing.

For line of inquiry 1, we assessed the extent to which:

- Objectives and benefits of amalgamation were clearly defined at the planning stage
- Plans and budgets were clearly defined at the planning stage
- Baseline measures were captured at the commencement of the project
- Staff accountable for a successful amalgamation were identified at the planning stage.

For line of inquiry 2, we assessed the extent to which:

- The amalgamation plan's implementation was monitored and reported, and corrective action taken
- Benefit achievement was monitored and reported and responsive action taken
- Records were kept of approved variations to plans and expected benefits
- Post amalgamation reviews identified areas for continuing attention.

For Line of inquiry 3, we assessed the extent to which:

- Evaluation revealed whether anticipated outcomes and benefits were achieved
- Evaluation revealed whether unanticipated amalgamation outcomes and benefits were achieved.

Audit scope The audit's scope was the implementation of the Government's amalgamation policy, and specifically decisions to amalgamate individual agencies. The audit did not question the merits of the Government's policy objective - it starts at the point where the direction is given to amalgamate.

The audit included case studies reviewing the amalgamations leading to the creation of two new departments, being:

- Department of Commerce, and
- Department of Primary Industries.

Audit approach	<p>We acquired subject matter expertise by:</p> <ul style="list-style-type: none">▪ interviewing officers from the department of Premier and Cabinet involved with amalgamation policy▪ interviewing officers from NSW Treasury involved in the two case study amalgamations▪ interviewing officers involved in leading the two case study amalgamations▪ interviewing officers involved in planning and managing the case study amalgamations▪ reviewing corporate planning and management reporting documents▪ reviewing internal staff communication documents▪ reviewing organisational external reporting documents▪ analysing data. <p>We also researched amalgamation activities, both public and private sector, in other jurisdictions to identify best practice examples. We examined the following jurisdictions:</p> <ul style="list-style-type: none">▪ Australian states▪ United Kingdom▪ United States.
Audit selection	<p>We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.</p>
Audit methodology	<p>Our performance audit methodology is designed to satisfy Australian Audit Standards AUS 806 and 808 on performance auditing, and to reflect current thinking on performance auditing practices. We produce our audits under a quality management system certified to International Standard ISO 9001. Our processes have also been designed to comply with the auditing requirements specified in the <i>Public Finance and Audit Act 1983</i>.</p>
Acknowledgements	<p>We gratefully acknowledge the co-operation and assistance provided by the Department of Commerce and the Department of Primary Industries. In particular we wish to thank our liaison officers Vivian Cronin and Alan Gleeson, and staff who participated in interviews, assisted with file review or provided other material relevant to the audit. We would also like to thank our liaison officers at the Department of Premier and Cabinet and the NSW Treasury for their assistance and support.</p>
Audit team	<p>Our team leader for the performance audit was Chris Bowdler, who was assisted by Brian Holdsworth. Sean Crumlin provided direction and quality assurance.</p>
Audit cost	<p>Including staff costs, printing costs and overheads, the estimated cost of the audit is \$274,000.</p>

Appendix 2 Checklist for finalising the allocation of functions and resources to new departments

Following the announcement of the Government's decision to amalgamate departments and the issuing of the Administrative Orders giving effect to the decision, there is a short period of consultation between CEOs and senior officers of affected agencies and central agencies to clarify the formalities. This checklist's questions are intended for use by those officers. The consultation is part of the initial planning process for implementing the amalgamation.

The consultation occurs directly after the government's decision and it has a big influence on the design and development of the amalgamation. Important in the process is the clarifying of the detail required in Administrative Orders and Public Sector Employment and Management (General) Orders drawn up following the government's decision.

The greater the clarity achieved in the steering group process, the greater the clarity of objectives and purpose taken into the new agency and integrated into amalgamation planning for the new agency; and later integrated into corporate plans and Results and Service Plans (RSPs).

This consultation process covered by this checklist can precede or run concurrently with the activities included in the Better Practice Guide (BPG) produced by this Office that assists the leaders of the new department plan and implement the amalgamation. The Audit Office has produced the BPG in conjunction with this audit. The checklist also has application to simpler amalgamations or restructures managed by lead agencies.

Steering group direction

- ✓ Is it clear to the steering group what is the purpose of the Government's decision and what are the expected benefits?
- ✓ Is it clear to the steering group what it must achieve, and by when?
- ✓ Are there comparable amalgamation experiences for the steering group to draw from?
- ✓ Can the steering group's tasks be split into manageable steps, achievable within the required time?

Information for the steering group

- ✓ Is there sufficient understanding of what is being brought together?
For example: functions, structures, cultures, service programs, existing change programs etc
- ✓ Is there sufficient understanding of the efficiencies to be achieved?
For example: Treasury requirements, Ministerial requirements, reform agenda outcomes, etc

-
- ✓ Is there sufficient understanding of the costs of the amalgamation?
Including:
To what extent are amalgamation costs to be absorbed by existing budgets?
What amalgamation costs are to get Treasury funding?
 - ✓ Does the steering group have sufficient appropriate information available to it?
 - ✓ Is any analysis supporting the amalgamation decision accessible?
- Understanding amalgamation benefits**
- ✓ What are the key amalgamation benefits to be addressed?
For example: savings and budget targets, staff reductions, and back office consolidation.
 - ✓ What are the new service synergies to be created?
Including consideration of:
What similar roles and functions are to (can be) consolidated?
Are there comparable jobs and numbers of staff at similar levels in similar jobs?
 - ✓ What is the new structure likely to look like?
- Steering group liaison**
- ✓ Does the steering group involve all relevant stakeholders?
Including representatives of the Department of Premier and Cabinet (DPC) and NSW Treasury undertaking key roles in the steering group, and consideration of union views?
 - ✓ Does the steering group have a clear line of communication to the Director General, DPC and Secretary Treasury for its recommendations?
- Implications for government initiatives and services**
- ✓ Will changes create risks for the delivery of State Plan priorities, or other key government initiatives?
 - ✓ Can negative impacts of the amalgamation on the delivery of government services be kept to a minimum and positive impacts accentuated?
- Administration Orders**
- ✓ Is it necessary to fine-tune the Administrative Orders and Public Sector Employment and Management (General) Orders drawn up immediately following the government's amalgamation decision?
Including any amendments to the Orders on how activities and staff are allocated.
 - ✓ Is the new department's structure and nomenclature consistent with the Administrative Order creating the new department and re-allocation of Acts?

- ✓ Is it necessary to liaise with the Parliamentary Counsel's Office on any further amendments to Acts or regulations?

Budget and financial management implications

- ✓ Have appropriate changes under financial legislation been agreed with Treasury?
- ✓ Is Treasury involved in the reallocation of budgets and assets/liabilities and any transfers under *Section 24* of the *Public Finance and Audit Act (PFAA)* to be made by the Treasurer?
- ✓ Have obligations under the *Public Finance and Audit Act 1983* and the *Public Authorities (Financial Arrangements) Act 1987* been reviewed and necessary change to regulations, delegations and schedules made?
- ✓ At what stage in the annual budget cycle is has the new department been created?
If created soon after the March election departmental and portfolio budget details will need to be finalised quickly for the June Budget.

Steering group outcomes

- ✓ Are the objectives and benefits of the amalgamation clear to the leadership of the new department?
- ✓ Has the steering group confidence that implementation of the amalgamation by the new department will meet amalgamation objectives and deliver expected benefits?
- ✓ Are there any significant matters carried over from the steering group requiring the attention of the new department?
For example: further finetuning of the Orders, continuing budget negotiations.

Performance Audits by the Audit Office of New South Wales

Performance Auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements.

If you wish to find out what performance audits are currently in progress, visit our website at www.audit.nsw.gov.au.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

Performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also assist the accountability process by holding managers to account for agency performance.

What are the phases in performance auditing?

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

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work we will meet with agency management to discuss all significant matters arising out of the audit. Following this, we will prepare a draft performance audit report.

We meet with agency management to check that facts presented in the report are accurate and that recommendations are practical and appropriate. Following this, a formal draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the final report. The final report,

which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope, performance audits can take several months to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our Office.

How do we measure an agency's performance?

During the planning phase, the team develops the audit criteria. These are standards of performance against which the agency or program is assessed. Criteria may be based on best practice, government targets, benchmarks, or published guidelines.

Do we check to see if recommendations have been implemented?

Every few years we conduct a follow-up audit. These follow-up audits look at the extent to which action has been taken to address issues or recommendations agreed to in an earlier performance audit.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports. Agencies are also requested to report actions taken against each recommendation in their annual report.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards. This includes ongoing independent certification of our ISO 9001 quality management system.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts a review of our operations every three years.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

Further information

Further information can be obtained from our website www.audit.nsw.gov.au or by contacting us on 9275 7277.

Performance Audit Reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
91	University of New South Wales	<i>Educational Testing Centre</i>	21 November 2001
92	Department of Urban Affairs and Planning	<i>Environmental Impact Assessment of Major Projects</i>	28 November 2001
93	Department of Information Technology and Management	<i>Government Property Register</i>	31 January 2002
94	State Debt Recovery Office	<i>Collecting Outstanding Fines and Penalties</i>	17 April 2002
95	Roads and Traffic Authority	<i>Managing Environmental Issues</i>	29 April 2002
96	NSW Agriculture	<i>Managing Animal Disease Emergencies</i>	8 May 2002
97	State Transit Authority Department of Transport	<i>Bus Maintenance and Bus Contracts</i>	29 May 2002
98	Risk Management	<i>Managing Risk in the NSW Public Sector</i>	19 June 2002
99	E-Government	<i>User-friendliness of Websites</i>	26 June 2002
100	NSW Police Department of Corrective Services	<i>Managing Sick Leave</i>	23 July 2002
101	Department of Land and Water Conservation	<i>Regulating the Clearing of Native Vegetation</i>	20 August 2002
102	E-government	<i>Electronic Procurement of Hospital Supplies</i>	25 September 2002
103	NSW Public Sector	<i>Outsourcing Information Technology</i>	23 October 2002
104	Ministry for the Arts Department of Community Services Department of Sport and Recreation	<i>Managing Grants</i>	4 December 2002
105	Department of Health Including Area Health Services and Hospitals	<i>Managing Hospital Waste</i>	10 December 2002
106	State Rail Authority	<i>CityRail Passenger Security</i>	12 February 2003
107	NSW Agriculture	<i>Implementing the Ovine Johne's Disease Program</i>	26 February 2003
108	Department of Sustainable Natural Resources Environment Protection Authority	<i>Protecting Our Rivers</i>	7 May 2003
109	Department of Education and Training	<i>Managing Teacher Performance</i>	14 May 2003
110	NSW Police	<i>The Police Assistance Line</i>	5 June 2003
111	E-Government	<i>Roads and Traffic Authority Delivering Services Online</i>	11 June 2003
112	State Rail Authority	<i>The Millennium Train Project</i>	17 June 2003

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
113	Sydney Water Corporation	<i>Northside Storage Tunnel Project</i>	24 July 2003
114	Ministry of Transport Premier's Department Department of Education and Training	<i>Freedom of Information</i>	28 August 2003
115	NSW Police NSW Roads and Traffic Authority	<i>Dealing with Unlicensed and Unregistered Driving</i>	4 September 2003
116	NSW Department of Health	<i>Waiting Times for Elective Surgery in Public Hospitals</i>	18 September 2003
117	Follow-up of Performance Audits	<i>Complaints and Review Processes (September 1999)</i> <i>Provision of Industry Assistance (December 1998)</i>	24 September 2003
118	Judging Performance from Annual Reports	<i>Review of Eight Agencies' Annual Reports</i>	1 October 2003
119	Asset Disposal	<i>Disposal of Sydney Harbour Foreshore Land</i>	26 November 2003
120	Follow-up of Performance Audits NSW Police	<i>Enforcement of Street Parking (1999)</i> <i>Staff Rostering, Tasking and Allocation (2000)</i>	10 December 2003
121	Department of Health NSW Ambulance Service	<i>Code Red: Hospital Emergency Departments</i>	15 December 2003
122	Follow-up of Performance Audit	<i>Controlling and Reducing Pollution from Industry (April 2001)</i>	12 May 2004
123	National Parks and Wildlife Service	<i>Managing Natural and Cultural Heritage in Parks and Reserves</i>	16 June 2004
124	Fleet Management	<i>Meeting Business Needs</i>	30 June 2004
125	Department of Health NSW Ambulance Service	<i>Transporting and Treating Emergency Patients</i>	28 July 2004
126	Department of Education and Training	<i>School Annual Reports</i>	15 September 2004
127	Department of Ageing, Disability and Home Care	<i>Home Care Service</i>	13 October 2004
128*	Department of Commerce	<i>Shared Corporate Services: Realising the Benefit including guidance on better practice</i>	3 November 2004
129	Follow-up of Performance Audit	<i>Environmental Impact Assessment of Major Projects (2001)</i>	1 February 2005
130*	Fraud Control	<i>Current Progress and Future Directions including guidance on better practice</i>	9 February 2005
131	Follow-up of Performance Audit Department of Housing	<i>Maintenance of Public Housing (2001)</i>	2 March 2005
132	Follow-up of Performance Audit State Debt Recovery Office	<i>Collecting Outstanding Fines and Penalties (2002)</i>	17 March 2005
133	Follow-up of Performance Audit Premier's Department	<i>Management of Intellectual Property (2001)</i>	30 March 2005

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
134	Department of Environment and Conservation	<i>Managing Air Quality</i>	6 April 2005
135	Department of Infrastructure, Planning and Natural Resources Sydney Water Corporation Sydney Catchment Authority	<i>Planning for Sydney's Water Needs</i>	4 May 2005
136	Department of Health	<i>Emergency Mental Health Services</i>	26 May 2005
137	Department of Community Services	<i>Helpline</i>	1 June 2005
138	Follow-up of Performance Audit State Transit Authority Ministry of Transport	<i>Bus Maintenance and Bus Contracts (2002)</i>	14 June 2005
139	RailCorp NSW	<i>Coping with Disruptions to CityRail Passenger Services</i>	22 June 2005
140	State Rescue Board of New South Wales	<i>Coordination of Rescue Services</i>	20 July 2005
141	State Budget	<i>In-year Monitoring of the State Budget</i>	28 July 2005
142	Department of Juvenile Justice	<i>Managing and Measuring Success</i>	14 September 2005
143	Asset Management	<i>Implementing Asset Management Reforms</i>	12 October 2005
144	NSW Treasury	<i>Oversight of State Owned Electricity Corporations</i>	19 October 2005
145	Follow-up of 2002 Performance Audit	<i>Purchasing Hospital Supplies</i>	23 November 2005
146	Bus Transitways	<i>Liverpool to Parramatta Bus Transitway</i>	5 December 2005
147	Premier's Department	<i>Relocating Agencies to Regional Areas</i>	14 December 2005
148	Department of Education and Training	<i>The New Schools Privately Financed Project</i>	8 March 2006
149	Agency Collaboration	<i>Agencies Working Together to Improve Services</i>	22 March 2006
150	Follow-up of 2000 Performance Audit	<i>Fare Evasion on Public Transport</i>	26 April 2006
151	Department of Corrective Services	<i>Prisoner Rehabilitation</i>	24 May 2006
152	Roads and Traffic Authority	<i>The Cross City Tunnel Project</i>	31 May 2006
153	Performance Information	<i>Agency Use of Performance Information to Manage Services</i>	21 June 2006
154	Follow-up of 2002 Performance Audit	<i>Managing Sick Leave in NSW Police and the Department of Corrective Services</i>	June 2006
155	Follow-up of 2002 Performance Audit	<i>Regulating the Clearing of Native Vegetation</i>	19 July 2006
156*	Fraud Control	<i>Fraud Control Improvement Kit: Meeting Your Fraud Control Obligations</i>	20 July 2006
157	Roads and Traffic Authority	<i>Condition of State Roads</i>	16 August 2006

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
158	Department of Education and Training	<i>Educating Primary School Students with Disabilities</i>	6 September 2006
159	NSW Health	<i>Major Infectious Disease Outbreaks: Readiness to Respond</i>	22 November 2006
160	NSW Health	<i>Helping Older People Access a Residential Aged Care Facility</i>	5 December 2006
161	Follow-up of 2003 Performance Audit	<i>The Police Assistance Line</i>	6 December 2006
162	NSW Health	<i>Attracting, Retaining and Managing Nurses in Hospitals</i>	12 December 2006
163	Legal Aid Commission of NSW	<i>Distributing Legal Aid in New South Wales</i>	13 December 2006
164	Department of Juvenile Justice NSW Police Force	<i>Addressing the Needs of Young Offenders</i>	28 March 2007
165	Homelessness	<i>Responding to Homelessness</i>	2 May 2007
166	Follow-up of Performance Audit Department of Education and Training	<i>Using Computers in Schools for Teaching and Learning</i>	9 May 2007
167	Follow-up of 2001 Performance Audit: Ambulance Service of New South Wales	<i>Readiness to Respond</i>	6 June 2007
168	Ministry of Transport	<i>Connecting with Public Transport</i>	6 June 2007
169	NSW Police Force	<i>Dealing with Household Burglaries</i>	27 June 2007
170	RailCorp	<i>Signal Failures on the Metropolitan Rail Network</i>	15 August 2007
171	Department of Premier and Cabinet Department of Commerce	<i>Government Advertising</i>	29 August 2007
172	Department of Primary Industries	<i>Improving Efficiency of Irrigation Water Use on Farms</i>	21 November 2007
173	NSW Police Force	<i>Police Rostering</i>	5 December 2007
174	Department of Education and Training	<i>Ageing workforce - Teachers</i>	13 February 2008
175	Department of Commerce Department of Primary Industries	<i>Managing Departmental Amalgamations</i>	March 2008
176*	Better Practice Guide	<i>Implementing Successful Amalgamations</i>	March 2008

* Better Practice Guides

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.

If you have any problems accessing these reports, or are seeking older reports, please contact our Office Services Manager on (02) 9275 7116.