



Treasury

Recurrent Expenditure Assurance Framework

A Quick Reference Guide for Agencies

December 2018

Version 3.1

Introduction

This quick reference guide provides a high-level introduction and overview of NSW Treasury’s Recurrent Expenditure Assurance Framework (REAF)¹ which was approved by Government in February 2017. Treasury Policy Papers - the NSW Gateway Policy ([TPP 17-01](#)) and Recurrent Expenditure Assurance Framework ([TPP19-03](#)) should be consulted for details.

What is recurrent expenditure assurance?

Recurrent expenditure assurance is a process that requires recurrent expenditure proposals above a certain threshold (see below) to be risk assessed and undergo a series of external assurance – or “Gateway”-reviews at key milestones – or “Gates”.

The objective of recurrent expenditure assurance is to ensure the Government’s key recurrent projects across NSW are delivered on time and on budget through the implementation of a risk based external assurance process. It is also intended to ensure ERC is supported by effective tools to monitor the NSW Government’s major policy proposals, receive early warning of any emerging issues and to act ahead of time to ensure projects succeed.

The REAF applies to:

- Proposed expenditure greater than or equal to \$100 million in Estimated Total Cost (ETC) over four years or \$50 million in any one year; or
- Proposed expenditure of lower value nominated by ERC, an Agency or by Treasury.

Proposed expenditures are classified into 4 Tiers based on ETC and risk. The REAF prescribes the number of mandatory gateway reviews for each Tier, with high profile/high risk proposals required to undergo a greater level of external assurance reviews².

What is included under the REAF?

The scope of REAF includes the following types of recurrent expenditure:

Types of Recurrent Expenditure	Example
1. Implementing a new Government policy or service	A new policy designed to tackle family violence
2. Significant amendment to an existing policy or service or operating model	Costs incurred if lock out zone policy in place in inner Sydney was expanded state wide

¹ Name changed from Recurrent Investor Assurance Framework (RIAF) to Recurrent Expenditure Assurance Framework (REAF), following Major Recurrent Advisory Group (MRAG) advice on 26 September 2018

² Under the NSW Gateway Policy, Treasury and agencies can nominate additional Gateway reviews or Health Checks.

3. Developing a strategy	A strategy to combat the effects of climate change on biodiversity in the Cumberland plain
4. Conducting a research program	Establishing a pilot bio-refinery to undertake research and develop renewable biomass based products
5. Setting up a new entity or new business unit within an entity	The establishment of a new Government body to regulate independent workers and the gig and sharing economy
6. Outsourcing a service	Outsourcing of NSW property management services or the outsourcing of NSW government agency administrative functions
7. Renewal of an existing policy or service that is due to lapse	A domestic violence policy with a five-year sunset date that gets extended to eight years
8. Re-tender for the procurement of a service	A re-tender of contract to operate a government facility, for example a correctional centre
9. Non-routine maintenance to an existing operating asset (for example, to address a large maintenance backlog)	Maintenance work in an agency requiring funding to address issues not dealt with by routine maintenance
10. Grant Program	A grants program intended to catalyse private investments in renewable energy storage
11. Expenditure to enhance/extend agency capability	A Justice recruitment project to hire, train and pay new NSW police officers to increase security presence in light of social issues and population growth
12. Responding to regulatory or legislative change	Costs involved in re-educating, re-settling or euthanising animals and compensation costs to members of the greyhound industry should greyhound racing be banned

For the avoidance of doubt, note:

- 1. Recurrent expenditure assurance is not restricted to new funding. It applies equally to roll over of existing expenditure**
- 2. The source of funding or nature of funding (new or existing) or status of funding (approved or not approved) is NOT a factor in determining whether a project falls under the Recurrent Expenditure Assurance Framework**

What is excluded under the REAF?

Following expenditure are excluded from the scope of REAF:

- A predominantly capital investment (i.e. an investment in infrastructure, property development, plant and equipment, or operational technology)
- A predominantly ICT investment (i.e. an investment in technology to acquire, store, process and disseminate information including hardware, software, communications technology)
- Primarily for procurement of goods and commodity
- Machinery of Government (MoG) changes
- Parameter and Technical Adjustments
- Accounting Adjustments such as property write downs, provision for future works or change in funding source
- Operating expenses related to a project where the spend is predominantly capital or ICT
- Compensation e.g. for interest lost
- Projects that have been fully implemented. Gateway reviews are not required retrospectively
- Projects which have no cost implications.

Refer to Annexure A for the REAF Decision Tree – to determine whether an expenditure falls within the scope of REAF or not.

Where does the REAF apply?

Under the NSW Outcome Budgeting model³, the State Budget is built up of *Programs* which Agencies deliver to contribute to *State Outcomes*. (*Programs* are defined as a coherent set of activities managed together over a sustained period of time, for producing outputs that contribute to a State Outcome).

An agency may have *Sub-Programs* that contribute to *Programs*. Finally, Agencies may have *Initiatives* that contribute to *Programs* or *Sub-Programs*.

Initiatives may be *Projects* (with a defined start and finish date and clear outputs, dedicated resources and a well-established development path), or may be *Ongoing Initiatives* with no set finish date.

The REAF will normally apply at the level of *Initiatives*. In some instances, the REAF could apply to a *Group of Initiatives* (grouped for reasons such as place, similarity or interdependency) or a

³ Refer to Treasury Policy Paper on Outcome Budgeting (TPP 18-xx) for further details on Outcome Budgeting. (to be issued shortly)

Sub-Program where similar conditions exist. The REAF would apply to *Programs* only in special circumstances -where the *Program* itself is being reviewed under the Outcome Assessment Framework and on a case by case basis. Agencies are not required to register, and risk assess *Programs*.

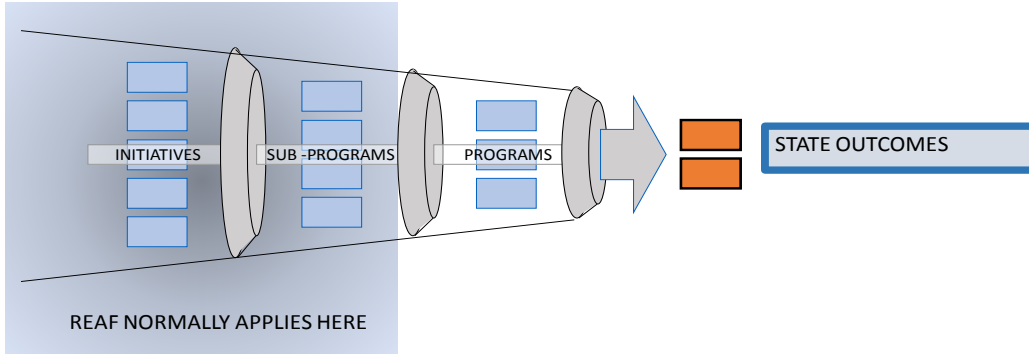


Figure 1- Application of the REAF

What does this mean to agencies?

Agencies must register and self-assess recurrent expenditure proposals (*Initiatives, Groups of Initiatives or Sub-Programs*) that meet the definition and are above the threshold using the Registration and Risk tool available on the Treasury website. If there is any doubt as to whether an expenditure is within scope of the REAF agencies should consult their Treasury analyst and/or the Treasury Gateway team. It also means that agencies need to prepare for the review, which means identifying key stakeholders who should be interviewed by the review team and pulling together the documentation, such as preliminary or final business cases and other relevant documents required to inform the reviews at the various Gates.

Gateway reviews are not required retrospectively. Nor it is expected that agencies will specifically create documentation for the purpose of a Gateway review.

Note that no additional project status reporting, beyond what is already being provided by agencies, is envisaged for recurrent projects.

What happens next?

Agency self-assessment will be reviewed by the Major Recurrent Advisory Group (MRAG), with membership drawn across the sector. MRAG will provide advice on the Risk Tier and the corresponding assurance plan to assist Treasury in determination of the final risk rating and assurance plan.

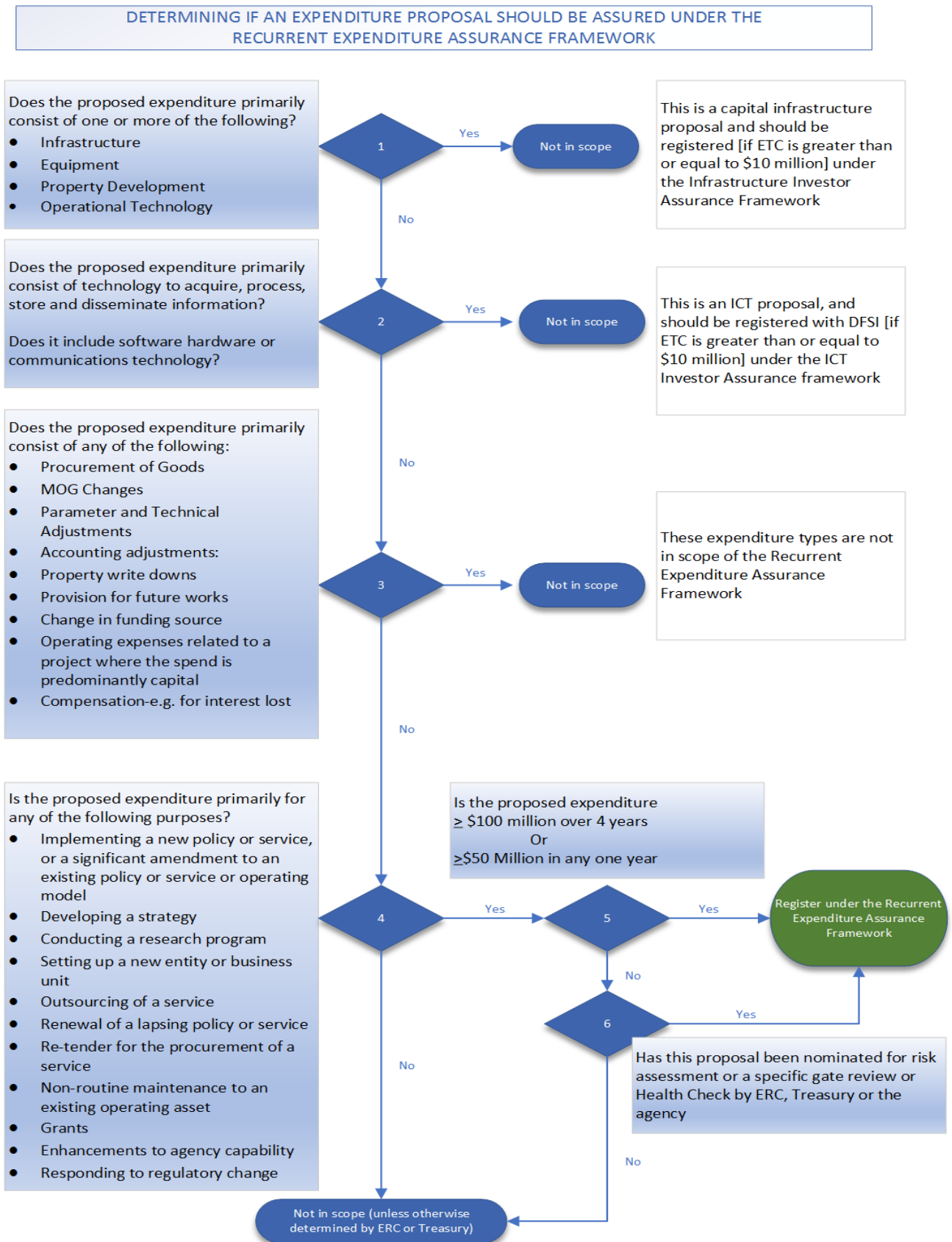
The approved assurance plan outlines how many and at which stages in the project life reviews and health checks must be undertaken. MRAG may advise an assurance plan that varies from those set out in the REAF depending upon the circumstances of each proposal.

The Treasury Gateway team will advise agencies of the decision and work with them to schedule Gateway reviews in accordance with the approved plan.

Further information and contacts

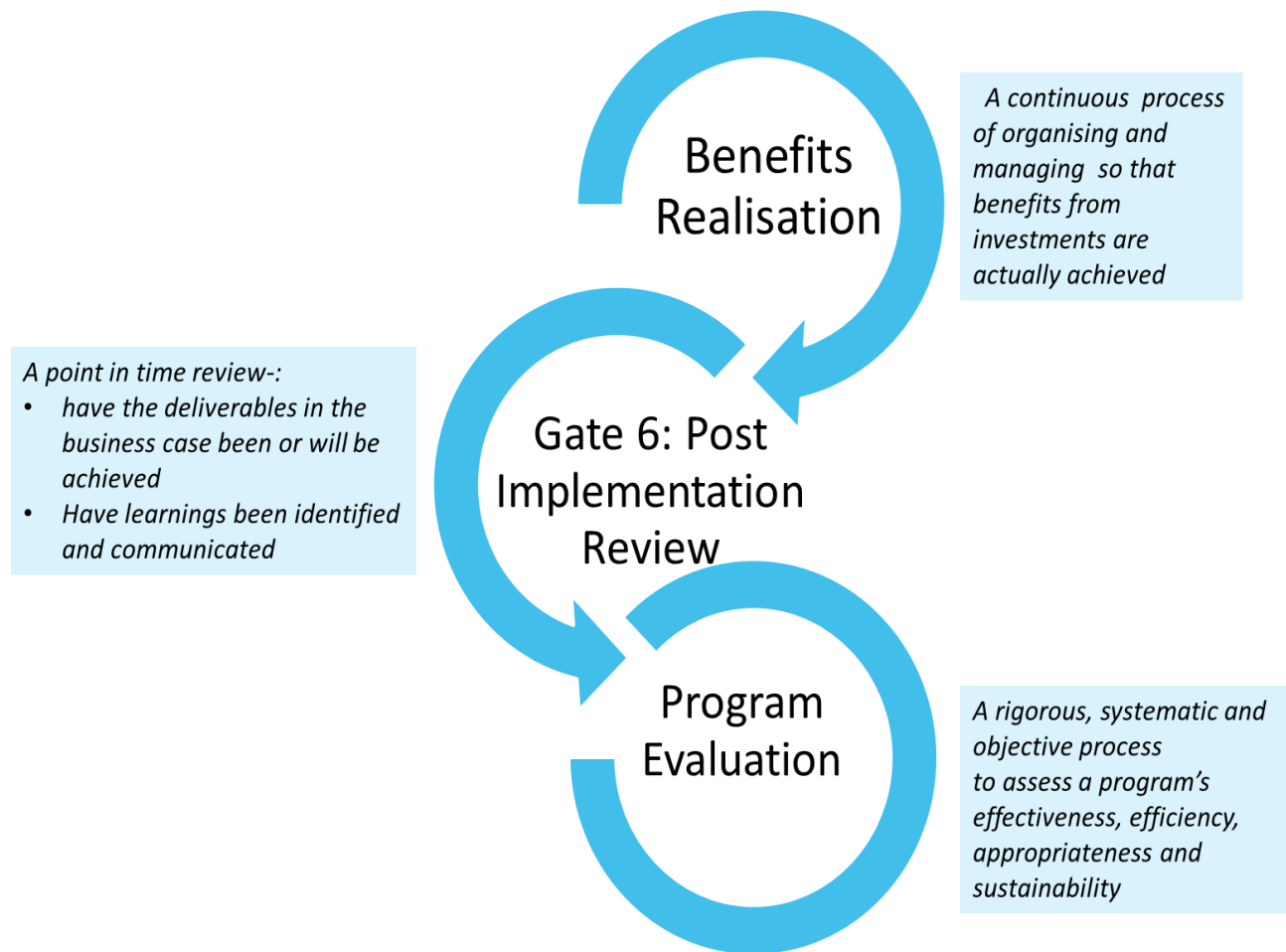
For further Information or clarification, please contact: the Gateway Team, NSW Treasury
Telephone: 02 9228 4207; Email: gateway@treasury.nsw.gov.au

Annexure A - REAF Decision Tree

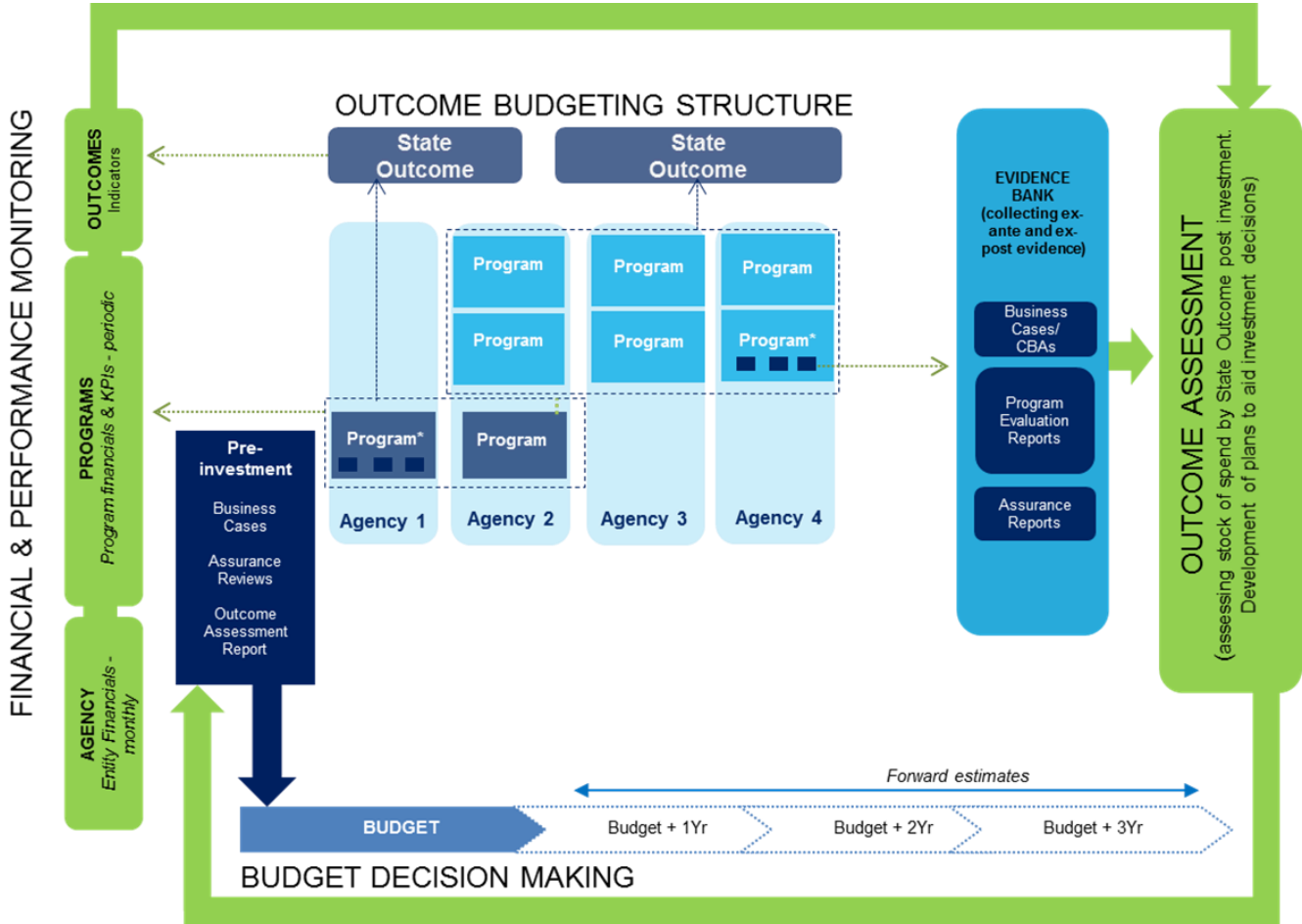


Program Evaluation, Benefits Realisation and Post implementation Gateway reviews are related but distinct processes

Most Gateway reviews -Gates 1- Gate 5 take place while the project is in flight- in planning, delivery or pre-handover to the operator and are forward looking, aimed at identifying the risks to achieving successful project delivery. A Gate 6-post implementation review is the only review that takes place after a project is completed. However, a post implementation review is distinct from a Program Evaluation (which may typically take place years after a program has been implemented) and the benefits realisation management process as illustrated in the diagram below:



Annexure B – Outcome Budgeting Framework



Annexure C – REAF on a page

