

# CSO Operating framework

## A general government sector agency operating under the commercial policy framework

### A4. CLASSIFICATION OF AGENCIES

The financial activities of all governments are measured using the government finance statistics (GFS) framework.<sup>1</sup> All entities controlled by governments are classified into sectors according to the nature of their activities and funding arrangements.

For financial reporting and policy framework purposes, NSW Treasury classifies each NSW Government entity under one of three sectors:

- general government sector
- public non-financial corporations
- public financial corporations.

Together, these sectors make up the total state sector. This is not a GFS term, but it is used to describe the scope of all government activities representing the total state.

The nature of each sector as it relates to NSW Government entities is as follows:

General government sector	The general government sector represents the scope of the Budget. Agencies in this sector generally operate under the Financial Management Framework and carry out policy, regulatory and service delivery functions. This sector includes agencies such as the Ministry of Health, Department of Education, NSW Police Force, Rental Bond Board, and Independent Pricing and Regulatory Tribunal.  'General government sector' is defined under GFS as the institutional sector comprising all government units and non-profit institutions controlled by the Government.
Public non-financial corporations sector	Agencies in this sector are either commercial or non-commercial.  Commercial enterprises generally operate under the Commercial Policy Framework, which aims to replicate disciplines and incentives that drive the efficient commercial practices of private sector businesses. They deliver services to a customer base from which they receive their income. They generally pay dividends and tax-equivalent payments to the general government sector. These agencies include State Owned Corporations such as Sydney Water and Hunter Water Corporations.

Extract from the Budget Papers

[Appendix A4 Classification of Agencies](#)

- CSO sits across two categories
- This informs how CSO must set its budgets and how it receives cash
- Requirements under the commercial policy framework include:
  - Pricing considerations – competitive neutrality
  - Business plan and agreed annual 'dividend' to Treasury
  - KPI reporting to Treasury

# CSO operating model

Income received from a **customer base** in return for **services delivered**

## **Government sector: 70%**

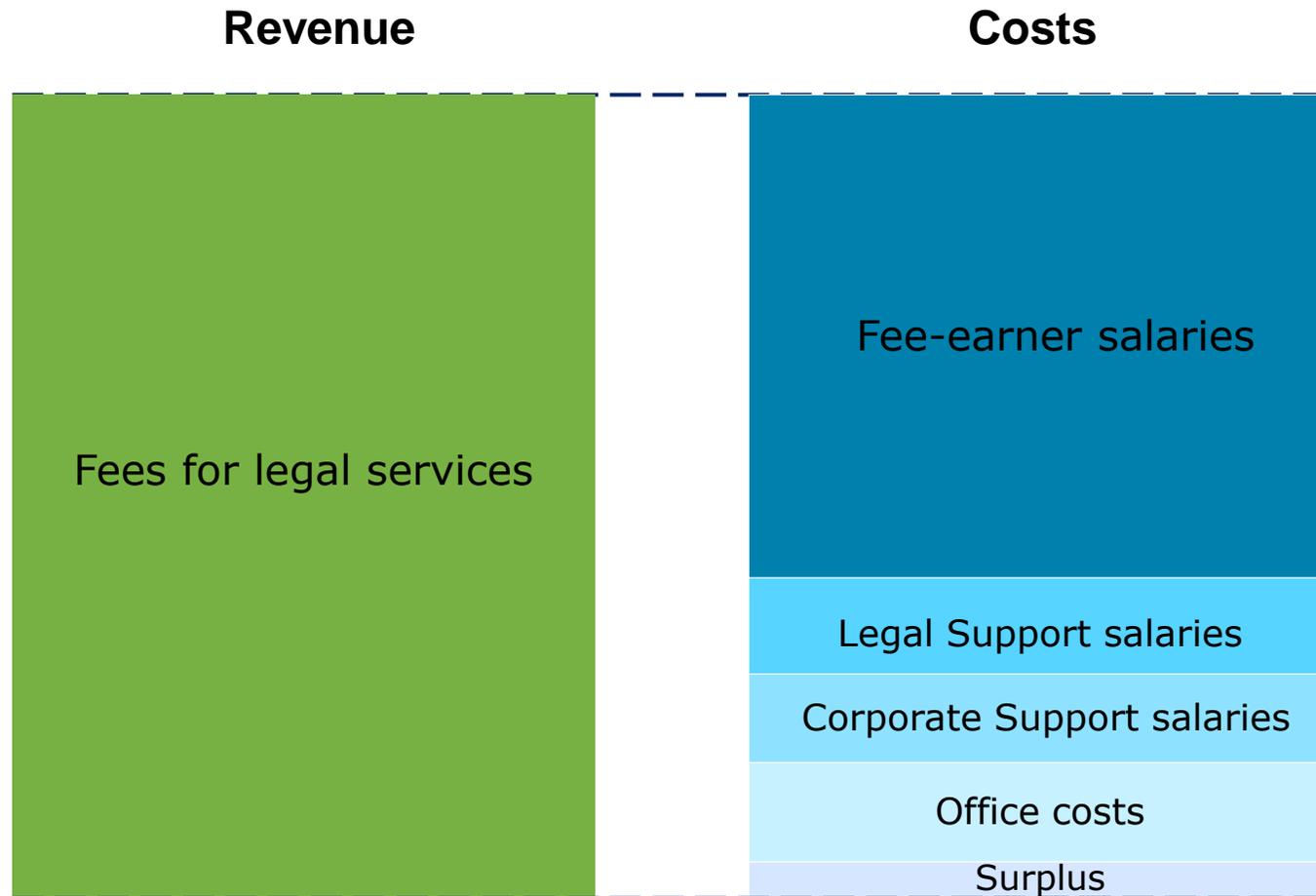
- Core work: performed on a cost recovery basis
- Legal matters which, because of their complexity, sensitivity or the need to be handled or managed centrally on behalf of the Government
- Funded by Attorney Generals Legal Fund
- AGLF is a budget. Resourcing is limited by the amount in the fund.

## **Commercial delivery: 30%**

- ▶ Commercial work: have to deliver a return to Government (70%) and investment money for us (30%)
- ▶ icare, GLS and non-tender work
- ▶ If work is increasing, with reasonable certainty, then prima facie can increase resources.

# Budgets and the CSO operating model

CSO must consider and balance both revenue and costs

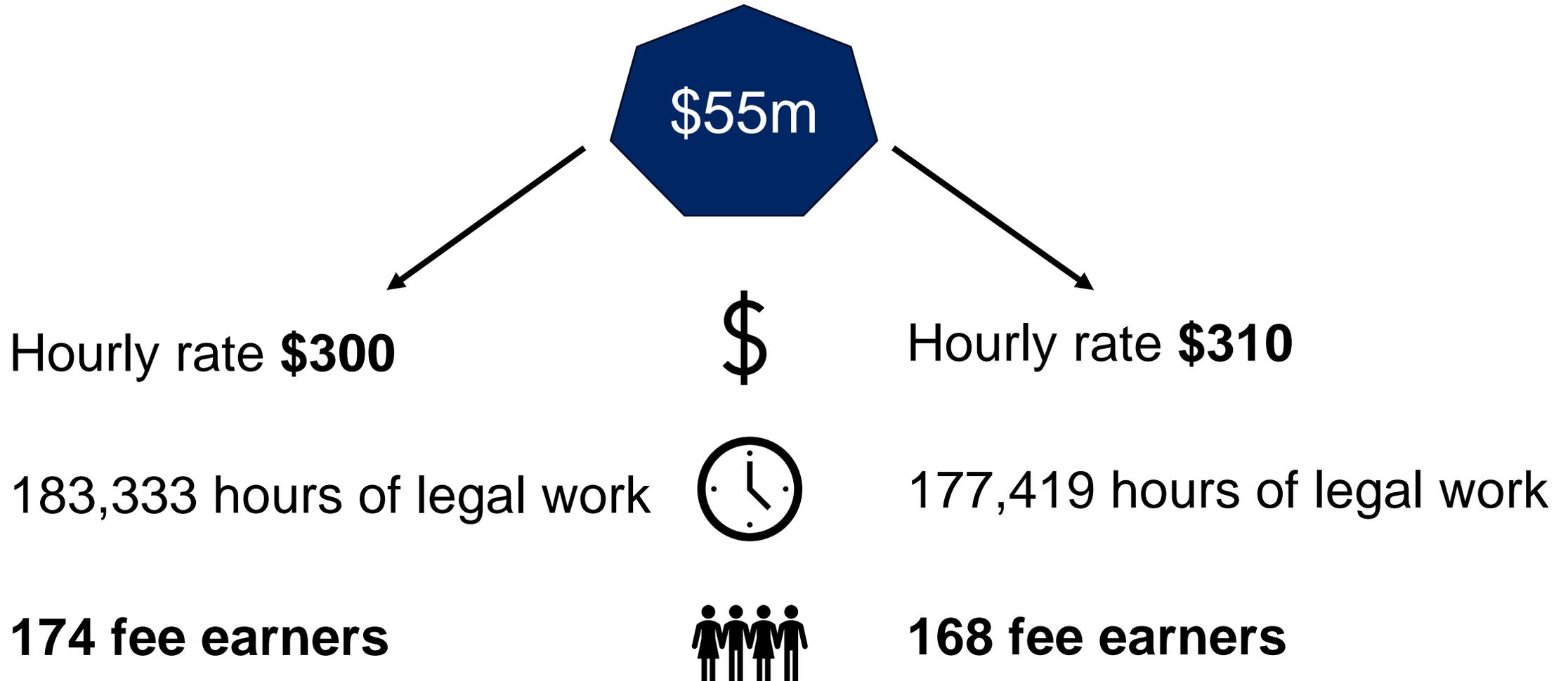


# Two elements of revenue: volumes and hourly rates (price)

- Volume
  - 5 billable hours per day
  - 211 billable days per year
  - 1,055 billable hours per fee earner per year
- Different hourly rates for
  - AGLF (cost recovery) and
  - Non-core work (profit margin)
- The budget process balances costs with
  - the available AGLF and
  - expected non-core work volumes



# AGLF is a set amount: how price and volume interact

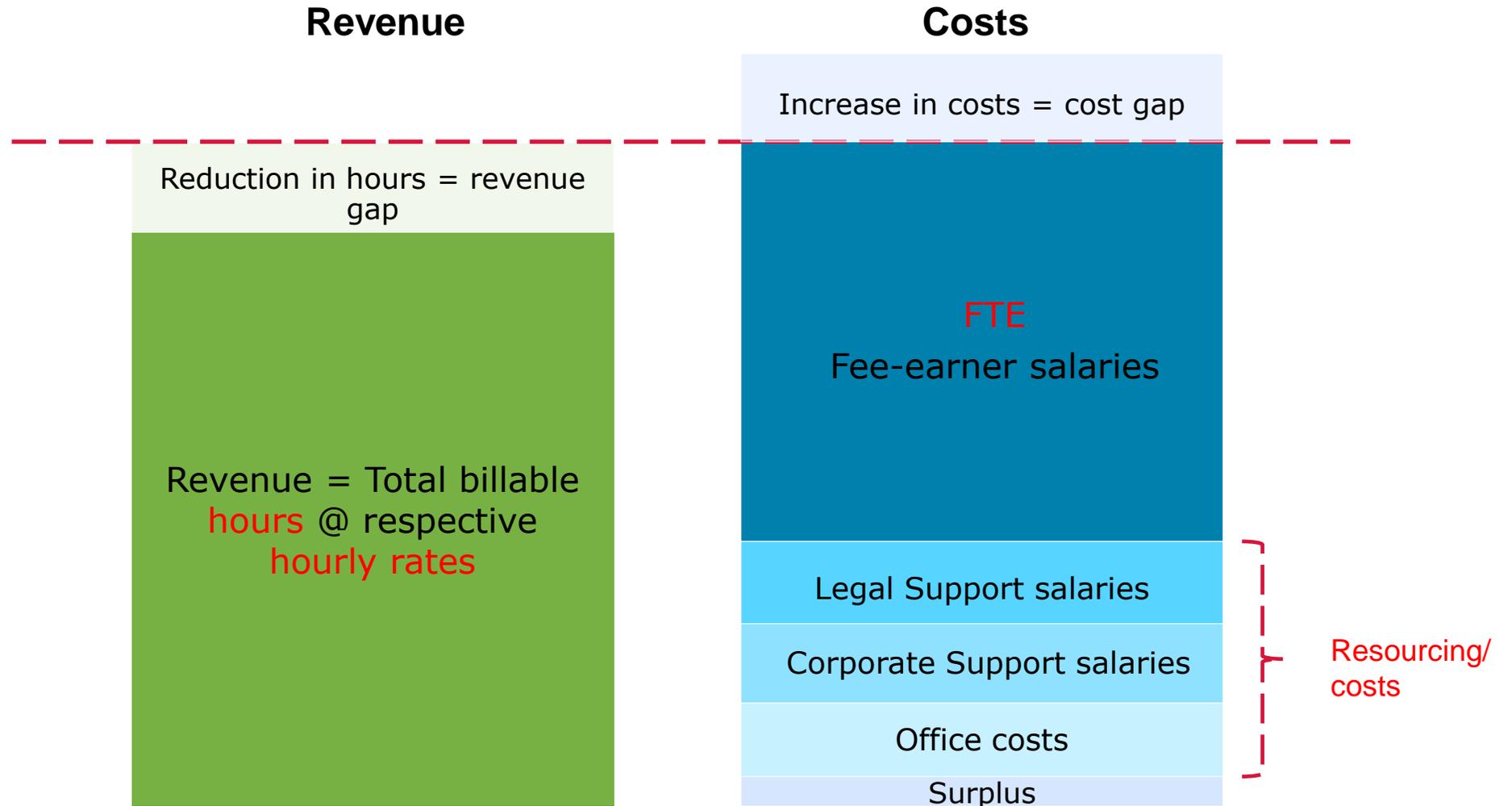


# Budget considerations

- CSO is not funded by an appropriation from the Consolidated Fund and cannot seek supplementation.
- CSO commits to a surplus (profit) and dividend figure each year.
- The AGLF is a fixed amount, indexed by wage CPI each year.
- CSO doesn't draw down on funding at intervals like other GGS agencies.
- CSO must earn and invoice its revenue via time posting and billing by legal staff, to collect cash to pay salaries and other expenses
- If revenue falls, or if costs rise, this may create an imbalance in the budget

# Budgets and the CSO operating model

CSO must keep revenue balanced with costs



# A change in one parameter can impact the others

- If total hours reduce or if costs increase, we may need to
  - charge more for each fee earner i.e. increase hourly rates
  - win more non-core work
  - review resourcing and other expenditure
- AGLF is a fixed amount – so if rates increase, the volume must reduce (i.e. volume of hours and FTE must decrease)
- Non-core rates (profit) must be above AGLF rates (cost recovery)
- Non-core rates are fixed by tenders for set periods and need to be competitive to win work
- No limit on non-core work but CSO must win it from private firms

# Example – increase in legal publication subscription costs



Costs are \$55m

Hourly rate **\$300**

183,333 hours of legal work

**174 fee earners**



Costs increase to \$55.7m

Hourly rate **\$304**

180,921 hours of legal work

**171 fee earners**

# Example – reduction in billable hours

- Say 300 fee earners, with an average \$300 hourly rate
  - Currently working 1,055 billable hours per fee earner per year (5 x 211)
    - Total annual revenue = 300 FTE x \$300 x 1,055 hours = \$94.95m
  - If those fee earners worked 6 fewer billable days:
    - 1,025 billable hours per fee earner per year (5 x 205)
    - Total annual revenue = 300 FTE x \$300 x 1,025 hours = \$92.25m
- \$2.7m less revenue
- Creates a gap with costs and puts CSO at risk of not delivering the agreed surplus