21 November 2006

Chair
CABINET BUSINESS COMMITTEE

CONCLUSIONS OF THE EXPENDITURE REVIEW OF CENTRAL AGENCIES’ ROLE IN PROMOTING AND ASSURING STATE SECTOR PERFORMANCE

Executive Summary

1. This report summarises the findings and conclusions of the Expenditure Review of Central Agencies’ Role in Promoting and Assuring State Sector Performance (Central Agencies Review). It also takes account of matters raised by the other Expenditure Reviews that were led by central agencies,¹ which are being considered separately by this Committee today.

2. The Central Agencies Review identified a number of opportunities for improvement by central agencies (State Services Commission (SSC), Treasury, and Department of Prime Minister and Cabinet (DPMC)), and the system in general. These were supported by the findings of the other central agency-led reviews. The main messages are that the central agencies must:

   • adopt a stronger leadership role by taking responsibility for making the performance system work;
   • focus on the things that matter, making sure that their joint efforts are targeted, and provide Ministers with the assurance that improvements in performance are taking place.

3. By responding to the above, it is expected that the three agencies will be more effective in their engagement on issues of importance to this Government. We are recommending that Cabinet note that a number of key actions are being implemented to make sure this is the case:

   • provision of periodic joint reports to us as central agency Ministers, giving assurance around performance on key areas and engaging on how central agencies are best able to help address the issues;
   • central agencies are putting together a joint work programme focussed on improving Crown entity performance; and

¹ The other reviews led by central agencies are Capital Asset Management, Employment Relations Arrangements, Information and Communications Technology Spending, and Enhancing Productivity through People Management Practices.
• a number of actions are being taken to ensure central agencies work together more effectively, including, for example, joint planning and prioritising, and training and developing capability together.

Background

4. The Central Agencies Review was commissioned by Cabinet in April 2006 (CBC Min (06) 8/5). The terms of reference were to:

• create a shared understanding of the different dimensions of good performance and how it can be better motivated and supported by central agencies;

• understand how central agencies influence performance separately and together; and

• determine what practical steps the central agencies could take to improve performance of the system as a whole.

5. The review was completed in September 2006 and provided to us as central agency Ministers. In addition, the Chair of the Cabinet Committee on Government Expenditure and Administration (EXG) asked the central agency chief executives to consider all five of the central agency-led reviews as a set. This consideration was provided to us, and the Chair of EXG, in early November 2006.

Findings and conclusions

6. The Central Agencies Review provided an in-depth investigation into the role of Treasury, SSC and DPMC. While it pointed to successes, it also indicated that more is needed from the central agencies, both jointly and separately, if they are to lift performance in the State sector. The findings of the other reviews supported the issues outlined below, emphasising the need to change the way the central agencies work, requiring central agencies to adopt a stronger leadership role and focus on the things that matter.

Adopt a stronger leadership role...

7. New Zealand’s relatively devolved public management system is still considered appropriate in most circumstances, but requires central agencies to take responsibility for making it work.

8. This does not mean controlling everything from the centre. It does mean supporting Ministers with better information and advice, and that the right guidance and monitoring is in place to enable the system to run smoothly. SSC, Treasury and DPMC need to ensure that agencies have a clear understanding of Ministerial expectations, that they clarify standards, monitor performance and, as required, lead change processes in order to ensure services are delivered in a suitable way.

9. Central agencies also need to get better at identifying issues early and ensuring the right actions are underway to resolve them. The reactive work they undertake needs to be balanced by improving their anticipation of issues.
Focus on the things that matter...

10. A key finding of the Central Agencies Review was that the biggest gains from performance improvement lie in a limited number of areas. This was supported by other reviews, such as capital asset management which showed that 95% of the physical assets held by departments and Crown entities are concentrated in just 10 entities (67% are controlled by just 3 – Transit, Housing, and the Ministry of Education).

11. Efforts need to be targeted to where they are going to have the most impact on results. Issues such as the quality of service delivery, the focus on policy implementation, and the quality of policy advice, are key factors in Government getting the results it wants. Central agencies must therefore make a commitment to focussing on the “vital few” issues and get action on these. This cannot ignore the system-wide view, since this is also where some of the core individual central agency responsibilities lie.

Key actions to implement the reviews

12. On 7 November the chief executives of the three central agencies sought our views, as their responsible Ministers, on which of the opportunities arising from the reviews deserved initial attention. Arising from this discussion, the three opportunities identified are:

- A focus on results – work is being undertaken to ensure central agencies are able to anticipate and discuss emerging issues with us as their Ministers, and together the three agencies need to provide assurance that their efforts are being targeted at the rights areas and are having an impact;

- Better support for Ministers in relation to Crown entities – improving performance through implementation of new legislative frameworks, and by ensuring that Ministers, monitoring departments, and Crown entities know how to use the new frameworks available for performance;

- More effectively contributing to improved performance – central agencies must improve their joint planning, prioritising, resourcing, training and development. This will support them operating in a consistent and co-ordinated fashion (including joint action where this makes sense).

A Focus on Results

13. Central agencies need to improve their focus on results by providing performance-focussed joint reports to us as their Ministers, tracking the progress of the most important issues for this Government. This would be supported by information that can inform judgements about improvement over time, and include clear statements on how central agencies will contribute to this improvement, whether by their individual actions or in a coordinated manner.

14. Recent performance assurance work by the central agencies on the health sector provides an example of the kind of work envisaged here. The lessons from the case study below should be applied to this Government’s most important issues in order to have the greatest impact.
15. Central agencies will deliver the first of these reports to us as their Ministers in March 2007. This is not about creating another layer of reporting, but instead using existing information to set out the performance story for issues that the central agencies are able to take action on.

**Better support for Ministers in relation to Crown entities**

16. Well-performing Crown entities are important for State sector performance – they account for slightly more than half of the Crown’s operating expenditure, manage significant Crown financial and physical assets, and employ 55% of the state sector workforce.

17. Each central agency has work underway relating to Crown entities. This work will be drawn together as a joint central agency work plan, and it will be refined and aligned over the next month. With a number of initiatives already underway, we expect to see early results in this work area.

18. The joint work programme will focus on three main avenues of influence:

- Better support for Ministerial engagement – Ministers need to be aware of, and have support in using, the tools and levers through which they can influence Crown entity performance.

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2 Net of transfer payments and debt servicing costs.
• Enhanced monitoring of Crown entities – the capability of monitoring departments needs to be such that they empower Ministers to act on Crown entity performance.

• Improved Crown entity governance – improving the quality and capability of Crown entity Boards will put entities in a better position to deliver on the expectations of Ministers.

19. An Expenditure Review is currently underway looking at how Ministers can be better supported by improvements to Crown entity monitoring arrangements. This is integral to the central agency Crown entity work programme, and is principally led by SSC and Treasury. The terms of reference include defining good practice monitoring, identifying actual examples, and identifying barriers to good practice. The review has three reporting deadlines, with the first of these in February 2007.

20. Central agencies recognise that there are a number of particular issues relating to Crown entities that are currently being considered by agencies and Ministers. This programme of action is intended to complement, not interfere, in these existing processes.

**Working together more effectively**

21. The review noted that while central agencies generally did well in relation to their separate, specialist roles, there is little evidence of formal or informal integration of effort on, or analysis of, performance issues. Some of the other reviews also highlighted opportunities for central agencies to work together more effectively.

22. Central agencies must work together to develop joint views on where priority issues lie and identify where there is value in taking joint, or coordinated, action on issues, or alternatively where separate action is likely to be more productive. This will require them to understand each other's positions on issues, and to know what each other is doing about it.

23. To make this happen, key changes the central agencies will undertake are:

• Planning and prioritising together – the central agencies must more formally and more regularly conduct joint reviews of their work programmes. This will help ensure areas that require a joint or coordinated effort to improve State sector performance are identified and relevant action taken. A process for doing this will be developed by December 2006.

• Jointly determine information requirements for agencies – State sector agencies have a lot of information demanded from them, which can distract them from the things that matter most. By June 2007, central agencies will have assessed information demands on departments, and put in place a process for better coordination of information demands going forward.

• Jointly consider resources of our agencies to propose priority resource use – central agencies must ensure that any joint or coordinated action leads to more, not less, productive use of our resources.
• Train and develop capability together – central agency staff will need to understand each other’s role clearly in order to reinforce a shared view of performance. By December 2006, central agencies will have identified some suitable areas for combined training and development, and implement these from that point on.

24. Cabinet noted at the time of the appointment of the Deputy State Services Commissioner that we, as central agency Ministers, have agreed that this person should take a lead role (on behalf of central agency chief executives) in ensuring that the three agencies work closely together.

25. Underlying all of these changes will be the adoption of a shared view of performance that better reflects the specific responsibilities of each central agency. The key elements of high quality performance are:

• Efficiency – the services provided avoid wasted time, resources and effort;
• Effectiveness – the services provided achieve the Government’s strategic policy goals;
• Excellence – the services meet or exceed Ministerial and public expectations for accessibility, timeliness, responsiveness and fairness;
• Trustworthiness – the activities of the state are conducted with integrity and professionalism.

26. This shared view should help central agencies to identify and consistently communicate performance expectations, and provide a basis for cooperation around performance improvements rather than duplication and competition.

Communications

27. The report of this review will be made public as part of a bulk release of the 2006 expenditure reviews completed to date, once it has been considered by CBC.

Consultation

28. No consultation with other agencies was required for this paper.

Fiscal Implications

29. This paper has no fiscal implications.

Human Rights

30. This paper has no human rights implications.

Legislative Implications

31. This paper has no legislative implications.
Regulatory Impact and Compliance Cost Statement

32. This paper has no regulatory or compliance cost implications.

Recommendations

It is recommended that the Committee:

1. **Note** that the chief executives of the central agencies accept that the five central agency-led Expenditure Reviews have challenged them to improve how they operate, in particular the need to:
   - adopt a stronger leadership role by taking responsibility for making the performance system work; and
   - focus on the things that matter, making sure that their joint efforts are targeted, and providing Ministers with the assurance that improvements in performance are taking place.

   **A Focus on Results**

2. **Note** that the aim of the focus on results work is to ensure central agencies are able to identify and discuss emerging issues with their Ministers, and collectively provide assurance that central agency efforts are being targeted at the right areas and are having an impact;

3. **Agree** that central agencies prepare for the first performance-focussed joint reporting to their Ministers in March 2007;

   *Better support for Ministers in relation to Crown entities*

4. **Note** that the goal of the central agency Crown entity work is to improve performance through implementation of new legislative frameworks and by ensuring Ministers, monitoring departments, and Crown entities know how to use the new frameworks available for performance;

5. **Agree** that central agencies present their Ministers with a joint programme of initiatives aimed at improving Crown entity performance by December 2006;

6. **Note** that the current Expenditure Review on Crown entity monitoring arrangements will be reported to Ministers by February 2007;
More effectively contributing to improved performance

7. **Note** that central agencies are committed to improving their individual, and collective, work in order to more effectively contribute to improved performance in the State sector;

8. **Agree** that central agencies implement processes for:
   - Planning and prioritising together by December 2006;
   - Jointly determining information requirements for agencies by June 2007;
   - Training and developing capability together by December 2006.

Rt Hon Helen Clark  
Prime Minister

Hon Dr Michael Cullen  
Minister of Finance

Hon Annette King  
Minister of State Services