14 September 2006

Prime Minister
Minister of Finance
Minister of State Services

cc Chair of EXG

Central Agencies Review

Attached is the report of the Central Agency steering committee, as commissioned by Cabinet in April 2006 (CBC Min (06) 8/5). We endorse the conclusions contained in the report. This covering note outlines the actions we, as central agency chief executives, are proposing to take in order to lift state sector performance.

We understand that Ministers’ key concerns about performance include the lack of assurance around results achieved; the need for cross-government solutions to “wicked” problems; and the need for agencies to be responsive to Ministerial expectations. This includes a desire for agencies to identify problems or anticipate issues early, to be proactive in providing fresh thinking and ideas and to have solutions proposed and remedial measures implemented quickly and effectively.

While the review team received a number of complimentary comments about the performances of the individual central agencies, we each believe that both jointly and separately we need to do better in the future to lift performance in the state sector.

In this note we set out the three initial issues where we think action by central agencies is important, and outline the actions we propose taking to address these.

Initial issues to address

The review found a number of opportunities for improvement by central agencies and the system in general. We consider that three opportunities require our initial attention:
• The focus on results is still too weak to ensure that Ministers are getting the assurance they are wanting around results. As central agencies we need to show stronger leadership to improve this.

• Crown entities need better support, and there needs to be better monitoring of Crown entity performance, to ensure that Ministerial expectations are responded to and value for money assurance delivered. Work is underway, but we need to coordinate to ensure this has as much impact as possible.

• As central agencies, we need to develop shared views on key issues and priorities as they emerge and quickly identify the most effective way to deal with them, including taking joint action where that is most productive.

**Stronger central agency leadership – a focus on results**

Looking across the performance cycle, we would suggest that the highest priority is to lift the quality of service delivery to ensure that you get the results that the Government wants, and in particular that service delivery is responsive to public need, and that it represents value for money. A focus on the implementation of policy decisions and on the delivery of services has been relatively neglected and we think this should be an area of focus now. Even so, in order to have greatest impact we are suggesting that attention should focus on the “vital few” issues rather than take an across the board approach.

In focusing on performance in this way we intend to reinforce the responsibilities of chief executives to deliver services, both individually and collectively. We would aim to ensure that agencies have a clear understanding of Ministers’ expectations, that they clarify standards, monitor performance and, as required, lead change processes in order to ensure services are delivered in a suitable way.

Additionally, Ministers have expressed concern around the quality of policy advice, finding on occasion that text is turgid and that the advice lacks creativity. As in the case of service delivery we would recommend that a focused approach be taken which is directed to key issues where Ministers have serious concerns about the on-going stream of policy advice. We would like to discuss with you the areas of greatest concern and some relatively quick options for better management of quality problems in those areas.

Recent performance assurance work on the Health sector by the central agencies provides an example of the kind of work we envisage in the area of service delivery which focuses on providing Ministers with information and assurance in that sector.
Right here, right now: a case study in meeting Ministers’ performance needs

The Health sector provides a good test of central agencies’ ability to provide Ministers with assurance and assessment of performance in a key sector.

The sector consists of multiple agencies (both government and non-government) each with different and overlapping interests. While the Ministry of Health is the lead performance assessment agency for the sector — responsible for reporting to Ministers — central agencies have a responsibility to provide Ministers with assessments of the return on financial investments and on investments in people and organisational capability, and with assurance that performance information is available, credible and focused on priorities.

A joint central agency case study of performance in the health sector found that in general there was a wealth of information and data available but that it was not necessarily focused on or presented in a way that addressed Ministers’ key concerns about how well Government health strategies are working and the value Ministers and New Zealanders were getting from their funding of the sector.

Lessons for central agencies were:

- Ensure Ministers’ objectives and expectations for the sector are clearly and unambiguously communicated throughout the sector.
- Focus assessment work on substantive issues of high importance to Ministers and central to central agency roles.
- Focus assurance work on ensuring lead/monitoring agencies have the information they need to manage performance at an appropriate level.

The full case study is contained under a separate covering report, which accompanies this note.

We suggest applying the lessons from the above case study across other areas of interest. The main vehicle for doing this would be periodic joint reports to the three central agency Ministers that cover the “vital few” areas of State sector performance, which would build off ongoing monitoring activities. These reports would track the progress of the most important issues for government, and provide a basis for consideration of what actions are needed, and whether these are at a system or more detailed level. The reports would provide a basis for engaging with Ministers and take account of changing Ministerial priorities.

We would seek information from, and provide feedback to, the relevant agencies (departments, Crown entities, or non-governmental agencies) as a way to reinforce Ministerial expectations and messages and to ensure that a substantive performance dialogue takes place.

We want this to be crystallised in a report by July 2007, to be used as a basis for engaging with Ministers. At this stage, the key delivery points seem to be:
Stronger central agency leadership – a focus on results

Monitoring - identifying the “vital few”

By the end of December 2006 we will provide initial advice to Ministers on the “vital few” service delivery areas where we propose to focus, and the emerging issues that will need to be monitored. Early engagement with Ministers on the “vital few” service delivery areas will be important to the quality of this advice.

Monitoring - defining indicators

By March 2007 we aim to get agreement with Ministers on key issues and to outline initial indicators for the “vital few” that can be tracked and monitored over time.

Monitoring - delivering Vital Few reports

By July 2007 we will have delivered our first Vital Few report to central agency Ministers. These will be produced every six months from this point onward. The effectiveness of the Vital Few report over time will be maintained by engagement with Ministers and reflect Ministers’ changing priorities.

We recognise that successful delivery of these initiatives will require us to implement processes for coordinating our approaches to, and views of, performance. New capabilities will also need to be developed within the central agencies to adequately address all aspects of performance (as opposed to only the current aspects we focus on).

Better support for Ministers in relation to Crown entities

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.

Each central agency has work underway relating to Crown entities (mostly focussed on maximising the leverage and impact arising from the passage of the Crown Entities Act 2004). This work will be drawn together as a joint central agency strategy and a work programme will be developed relating to engagement with Crown entities.

An important feature of this joint work programme will include promoting improved support for responsible Ministers by the departments which monitor Crown entities. This will be based on results of the EXG review of Crown entity monitoring arrangements. The terms of reference include defining good practice monitoring, identifying actual examples, and identifying barriers to good practice. The review has three reporting deadlines, and the first of these is in February 2007.

To complement and reinforce the work of monitoring departments, central agencies will engage directly with Crown entity chairs and chief executives to ensure that they understand and respond to Ministers’ governance and performance expectations.

This is an area where the momentum for change already exists, and so we expect our collaborative efforts to add further impact and/or deliver results sooner. As always,

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1 Net of transfer payments and debt servicing costs.
there are a number of particular issues relating to Crown entities that are being considered by agencies and Ministers. This programme of action is not intended to interfere in these existing processes. Our proposed deliverables are:

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

**Agreed Crown entity development work programme**

By December 2006 we will have assessed the current Crown entity development work underway in central agencies, align these where necessary, and present Ministers with a programme of initiatives to improve Crown entity performance.

**Improving Crown entity monitoring arrangements**

By February 2007 we will report to Ministers on recommended improvements to Crown entity monitoring arrangements so that Ministers are better supported in their roles in relation to Crown entities.

**Stronger engagement**

By the end of December 2006 we will have identified the main avenues to engage with key Crown entities, and have protocols in place with relevant monitoring departments setting out our respective roles. The first engagement will take place by February 2007.

The focus on better support for Ministers in relation to Crown entities will complement existing and new initiatives to provide better support for Ministers in relation to departments, eg through the review of Statements of Intent, which is currently underway. Experience and learnings from existing and new initiatives will be shared across central agencies and monitoring agencies.

**Central agency contribution to improved performance**

The ability of central agencies to contribute to improved performance across the state derives from both the work that the individual agencies carry out separately and on the opportunities that are taken to collaborate and cooperate in the delivery of the agencies' responsibilities. A common observation made during the review’s stakeholder interviews was 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.

We have a slightly different view. We think that we need to do better in both our separate and joint work. This will include developing joint views on where priority issues lie and identifying where there is value in taking joint action on issues or alternatively where separate action is likely to be more productive. These choices will involve careful judgement and will require us to model the attitudes that we expect other agencies to display.

In this note we have set out elements of a joint work programme going forward. We will need to change the way we work so that we can deliver on this programme. This will include developing more of a focus on service delivery and implementation elements of performance. Working together will need close understanding, agreement on priority areas, and recognition of how each agency can contribute to change in the priority areas.
This does not require structural change, and certainly does not mean we need to operate in identical ways. Our individual roles will remain distinct, and the chief executive of each of the three central agencies remains accountable for the performance of his agency.

Key changes we intend to undertake are:

**Planning and prioritising together**

We will regularly review our work programmes to identify how we can contribute to improve state sector performance through our separate and joint efforts and given each of our agency's roles, responsibilities, and resources. A plan of action will be developed by December 2006 which will be used as the basis for our reporting to Ministers so that our progress with this work can be monitored by Ministers.

**Jointly determine information requirements for agencies**

By June 2007 we will assess current information flows to identify any that are no longer required. Agencies have a lot of information demanded from them, which can distract them from the things that matter most. We should focus on the relevant indicators for the vital few issues which are needed to inform meaningful analysis.

**Jointly consider resources of our agencies to propose priority resource use**

We will look to use our resources better to support a coherent approach. We must ensure that any integrated action leads to more, not less, productive use of our resources.

**Develop training, induction and learning together**

By December 2006 we will have identified some suitable areas for combined training, and implement these from that point on. Central agency staff will need to understand each other's role clearly in order to reinforce a shared view of performance. Performance lessons also need to be shared where appropriate, not locked in one central agency.

These collaborative proposals fit well with initiatives already underway in central agencies in regard to each central agency's roles and functions. For example, the State Services Commission has recently reorganised itself to support the Development Goals programme which aims to lift the performance of the state services. In Treasury, an organisation-wide process ("Stepping Up") is taking place that aims, among other things, to provide a greater focus on results in the areas of greatest importance to Government and greater capacity to contribute in depth on these issues. The Department of Prime Minister and Cabinet has taken the lead in ensuring that state sector agencies align their strategies with Government's three themes.

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. We agree that 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.

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.

**Integrating the central agency-led EXG reviews**

The EXG review programme has included four other reviews led by central agencies which look at system-wide issues. These reviews looked at state sector-wide systemic issues in the areas of:

- capital asset management
- employment relations
- people management
- ICT (Information and communication technology)

The terms of reference for both the central agency review and the four reviews referred to above acknowledged potential overlaps.

The recommendations of all the reviews will be considered by Ministers on 18 October. Once you have considered the recommendations, you may wish to invite central agencies to consider the recommendations from these reviews as a complete set and to recommend how their implementation can best be prioritised and sequenced to maximise their impact on performance.

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<th>Integrating the EXG reviews</th>
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<td><strong>Central agency plan of action</strong></td>
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Ministers may wish to direct central agencies to provide advice on options to maximise the beneficial effect of the recommendations of the EXG reviews on capital asset management, employment relations, people management and ICT.
Recommendations

We recommend that you:

1. **Note** that as chief executives we accept the conclusion of the attached review and acknowledge that our agencies need to change how we operate to be more effective in lifting state sector performance;

2. **Agree** that the initial issues that we should address are:
   - Getting a better focus on results;
   - Better support for Ministers in relation to Crown entities;
   - Improving central agency interaction on performance;

*Better focus on results*

3. **Agree** that stronger central agency leadership is required to get a better focus on results;

4. **Agree** that in order to get better performance, the highest priority for central agencies is to lift the quality of service delivery, followed by a lift in the quality of policy advice;

5. **Agree** that central agencies will engage with Ministers so as to provide initial advice on the “vital few” service delivery areas that should be focused on, and the emerging issues that will need to be monitored, by December 2006;

6. **Agree** that central agencies provide Ministers with initial advice on indicators for the “vital few” service delivery areas by March 2007 that will be monitored and tracked over time;

7. **Agree** that central agencies provide Ministers with a Vital Few report every six months that would track progress of the most important issues for performance improvement, and provide a basis for discussion of priorities with Ministers;

8. **Direct** that the first Vital Few report be presented by the end of July 2007;

9. **Note** that the relevance and effectiveness of key indicators of, and information on, performance will depend critically on timely and regular central agency engagement with Ministers;

10. **Advise** central agencies of the key areas where you would like the quality of policy advice to be lifted and discuss the type of solutions which could be used;

*Better support for Ministers in relation to Crown entities*

11. **Note** that with a new legislative framework for Crown entities, and initiatives related to Crown entities currently underway, quick wins in performance improvement should be possible with a concerted, coordinated drive in this area;
12. **Direct** central agencies to prepare a joint work programme by December 2006 focussed on improving Crown entity performance;

13. **Note** that Cabinet has recently directed an EXG review around Crown entity monitoring arrangements whose first report to Ministers is due in February 2007;

14. **Note** that central agencies will engage more with Crown entity chairs and chief executives (complementing monitoring department engagement), aiming to achieve greater consistency and clarity of key messages, and therefore better responsiveness to Ministers’ performance and governance expectations;

15. **Note** that the first such engagement will take place by February 2007;

*Improving central agency management of performance*

16. **Note** that, as part of improving interactions on performance, central agencies will:

   - by December 2006, develop a joint plan of action which will cover which performance improvement issues are of highest priority, when and how these can be addressed, and how these will be resourced (jointly or separately);

   - by June 2007, jointly determine information requirements for agencies consistent with a focus on the relevant indicators for the "vital few" issues;

   - jointly consider ways for using resources to better support a coherent, integrated approach;

   - by December 2006, identify some suitable areas for combined training, induction and learning together;

17. **Agree** that in considering performance improvement, 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;

18. **Agree** that a short summary report against the joint plan of action should be provided to Ministers every six months to ensure performance concerns are being adequately addressed by the three central agencies, and would form the basis of a discussion with Ministers on progress against the plan and emerging issues;
Integrating the central-agency led EXG reviews

19. **Direct** central agencies to report on options to maximise the beneficial effects of the recommendations of the EXG reviews on capital asset management, employment relations, people management and ICT taking into account Ministers’ views at EXG on 18 October 2006.

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