

Chair
Cabinet Expenditure Control Committee

Performance Improvement Framework (PIF) – Second Tranche Results and System Findings

Proposal

- 1 This paper reports on the second tranche of Performance Improvement Framework (PIF) reviews and provides an analysis of the State Services system, based on the nine PIF reviews completed to date. It outlines the initial response by central agencies to the PIF system findings, and what is publicly communicated when the second tranche PIF results are published at the end of May.

Executive Summary

- 2 The second tranche of PIF reviews are broadly consistent with the findings in the first tranche, released in September 2010. Key system findings have been drawn from the PIF reviews to date.
- 3 The reviews show that we have “can do” State services which are strong on delivering the results government wants now, that value probity and ensure accountability for the expenditure of taxpayers’ funds.
- 4 The reviews also show that agencies are weaker in developing sustainable public policy and services for difficult longer-run issues, particularly when these need the support of multiple agencies, and improvements need to be made within existing government appropriations.
- 5 Central agencies have identified four key areas for improvement across the system, and will be working to support agencies to lift their performance in these areas:
 - Increasing their ability to provide advice that is robust over time, and meets the needs of Ministers and the public in the future.
 - Developing a stronger ‘line of sight’ between expenditure and the impacts of this expenditure for New Zealanders. This includes having better information on the effectiveness of programmes and services and using this information to drive decision-making about investment and improvement.
 - Improved ability to work across agency boundaries so that agencies can better connect policies and services in areas where collaborative effort will improve outcomes for New Zealanders.
 - Improved people management so that agency leaders are more effectively communicating their vision across the organisation, developing appropriate cultures and capability and managing poor performance.
- 6 The second tranche reports will be published on 27 May, along with commentary on the core themes referred to above.

Background

- 7 The PIF is a performance improvement tool which can be used at the agency, sector and system level. Reviews are undertaken by independent and experienced lead reviewers.
- 8 The PIF reports identify current strengths of agencies and areas for improvement. Each agency develops a response which addresses the areas for improvement. The implementation of the response is supported by central agencies.
- 9 The first two tranches of PIF reviews comprise:
 - Tranche one: Ministry of Foreign Affairs and Trade, Department of Conservation, Te Puni Kokiri, and Land Information NZ.
 - Tranche two: The Treasury, NZ Transport Agency, New Zealand Trade and Enterprise, Ministry of Social Development, and the Inland Revenue Department.
- 10 The Ministry of Education, Ministry of Women's Affairs and the Ministry of Pacific Island Affairs have also been reviewed, but the reports have not been finalised and thus are not yet part of the system analysis or tranche publication.
- 11 Responsible Ministers have been briefed on the second tranche reviews and have had an opportunity to discuss the review findings with the agency chief executive and lead reviewers. Reports have been finalised following these briefings.
- 12 Central agencies are planning to review four further agencies this year. Those confirmed are Crown Law during June and Statistics NZ in July. The Department of Corrections is likely to be reviewed in October.

Second Tranche Findings

- 13 Appendix 1 sets out the summary results for the second tranche reviews. Copies of the PIF reviews for the agencies are available from the Office of the Minister of State Services on request.
- 14 The key findings with respect to each agency review are:

The Treasury

The Treasury:

- Has a demanding, wide reaching role. It has a number of high calibre performers and a proven ability to help Ministers deal with challenging issues.
- Has a broad organisational development programme underway which was affirmed through the review process.
- Needs to further develop its leadership role in longer term economic direction setting and public sector management. It also needs to pay greater attention to its external engagement and relationships to improve internal alignment between its organisational direction and individual staff performance.

NZ Transport Agency (NZTA)

In the two years since its formation, NZTA has come together well, with an impressive record of performance in its core business areas. However NZTA faces coordination issues in regard to a long-term transport approach, and faster progress is needed in work with the Ministry of Transport to refresh the sector regulatory framework.

New Zealand Trade and Enterprise (NZTE)

The review has highlighted the importance of NZTE and policy agencies developing a shared understanding of the purpose of NZTE to inform prioritisation, planning and monitoring and evaluation. The Board and management need to place priority on ensuring the organisation is focussed on meeting the needs of internationalising firms through the development and implementation of client engagement plans.

Ministry of Social Development (MSD)

MSD:

- Is a high performing organisation from which other agencies can learn.
- Should continue its focus to improve operational effectiveness, particularly for the long term beneficiaries.
- Should maintain its focus on lifting the quality and consistency of social work practice.

The review also concluded that central agencies should reinforce that joint work is a core responsibility for all the relevant chief executives, and that this is included in all performance expectations, induction, and performance feedback and assessments.

Inland Revenue Department (IRD)

IRD:

- Is a strong performing and well positioned agency which has demonstrated its ability to lift its performance significantly and is working on strategic options to continue to do so.
- Faces a considerable change management challenge in embedding a new delivery model, in particular with enhancing current operational incentives and measures with more of a whole-of-organisation approach.
- Needs to work closely with the Treasury and other stakeholders to determine an optimal path for its business transformation journey and to then secure the necessary support for implementing the technology platform(s) required in the medium-to-long term.

- 15 Responsible Ministers have been provided with written briefings and have been orally briefed by officials and lead reviewers when such briefings were requested.
- 16 In the course of the second tranche central agencies have considered the impact of the action planning process that follows on from the review. Our experience in the first tranche was that action plans were task orientated with a short term focus. For the second tranche central agencies have worked with agencies to develop responses that are about the critical few changes that will provide a significant lift to performance in the medium term and how that will be measured.
- 17 In the early stages of the PIF, publication in tranches was intended to be used to introduce the public and agencies to the PIF reviews and avoid unnecessary exposure of any one agency. However, the delay in publication for agencies reviewed early in a tranche can slow actions taken in response to the reviews. The media, the public and agencies now have a substantial baseline of reviews to provide context for an agency report. Consequently central agencies intend to publish each review as it is finalised in future, rather than publishing in tranches.

System findings

- 18 The charts in Appendix 2 show aggregate findings from all PIF reviews to date.
- 19 Agency comparisons should be made recognising that agencies are in different circumstances¹, and that there is some variation between judgements of lead reviewers using the PIF framework, particularly in the first tranche. Consistency is improving as lead reviewers gain more experience and as a result of on-going improvements to the PIF processes, particularly moderation and lead reviewer training.
- 20 The themes identified from the tranche analysis are consistent with those from other processes such as BASS, the Review of Expenditure on Policy Advice and work on the State sector performance management system.
- 21 Four core themes arise from the analysis:
- *Short term responsiveness, but limited medium-term view or strategic positioning.* Agencies tend to be reactive, focusing on the short-term and delivering (well) what ministers ask for today, but this is often at the expense of their obligation to ensure that advice is robust over time, and capability exists to meet the needs of ministers and the public in the future.
 - *Low efficiency (both allocative and process efficiency).* Agencies generally do not have a strong line of sight between expenditure and impacts. Information on cost effectiveness does not generally drive decision-making. Compliance behaviour, rather than business need, dominates the recording and use of financial information.
 - *Limited ability to work across agency boundaries.* Silos persist, getting in the way of information flow between agencies, and between government and others. This hinders work on cross-government priorities, and limits the ability of agencies to deliver advice to Ministers that recognises risks and policy impacts across government.
 - *People management needs improvement.* Key areas for improvement are: agency leaders communicating vision across the organisation; developing appropriate cultures and capability; and managing poor performance.
- 22 While the analysis identifies areas of weakness in the system that need to be addressed, there are examples of strong performance by agencies in each of these areas that can provide guidance to all agencies about effective practice. For example, IRD with respect to use of good quality management information systems to drive efficiency improvements, and MSD with respect to many aspects of leadership, direction and delivery.

Central agencies response

- 23 The central agencies work programme for BASS, the Review of Expenditure on Policy Advice, the State sector performance management system and State sector reform include several proposals to improve the State Services system that are pertinent to the themes identified through the PIF system analysis. Central agencies will identify further actions to address areas of system weakness and report to the Prime Minister, Minister of Finance and Minister of State Services in six weeks.

¹ Comparisons between agencies' ratings need to take into account factors such as that some agencies reviewed are much larger than others; there are different requirements for policy and operational agencies; and Crown entities operate in a different context from departments. Agencies are also often in different stages of transformational change.

Consultation

- 24 The Treasury; the Department of the Prime Minister and Cabinet; the Ministries of Economic Development, Foreign Affairs and Trade, Transport, and Social Development; New Zealand Land Transport Agency; New Zealand Trade & Enterprise; and the Inland Revenue Department were consulted in the preparation of this paper.

Financial implications

- 25 This paper has no financial implications.

Human rights

- 26 This paper has no implications for human rights.

Legislative implications

- 27 This paper has no legislative implications.

Regulatory impact analysis

- 28 A regulatory and compliance cost statement is not required.

Gender implications

- 29 This paper does not have gender implications.

Disability Perspective

- 30 A disability perspective is not required.

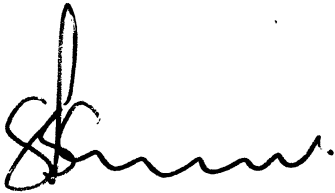
Publicity

- 31 The second tranche of PIF reviews will be published on the SSC website on 27 May 2011. When the first tranche reports were released last September central agency chief executives indicated that trends in the State Services system were emerging from PIF reports, but more reviews were needed before they could have confidence about the key system issues that should be addressed. For the second tranche publication the key system issues identified in PIF reviews will be communicated.
- 32 The PIF reports and agency action plans for the second tranche reviews will be publicly released. This Cabinet paper will be also published online.

Recommendations

- 33 It is recommended that the Committee:
- 1 **note** that the Performance Improvement Framework (PIF) is an initiative to drive performance improvement across the State Services
 - 2 **note** that the PIF involves independent lead reviewers using the Framework to evaluate and rate the performance and capability of agencies
 - 3 **note** the Ministers of Finance and State Services and the responsible Ministers for each agency have been briefed on the reports
 - 4 **note** the summary results of the reviews of the Ministry of Social Development, the Treasury, New Zealand Land Transport Agency, New Zealand Trade and Enterprise and the Inland Revenue Department

- 5 **note** the key systems findings are that:
 - agencies are responsive to Ministers on immediate issues, but providing a medium-term view or strategic positioning is more limited
 - allocate and process efficiency is generally low
 - ability to work across agency boundaries is limited
 - people management needs improvement
- 6 **note** that central agencies will report to the Prime Minister, Minister of Finance and Minister of State Services in six weeks with an action plan to address system weaknesses identified through PIF reviews
- 7 **note** the PIF reports and responses will be publicly released on 27 May 2011
- 8 **note** this Cabinet paper will be published online.



FOR
Hon Tony Ryall
Minister of State Services

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Released by the Minister of State Services