Working Paper 2016/01: History of strategy stewardship in the New Zealand public service 1980–2016

Madeleine Foreman

1. Introduction

To understand the current arrangement of strategic instruments in the public service, it is necessary to trace their movements over time. Stewardship is an essential element of strategic management. The 2013 amendment to the State Sector Act 1988 defines stewardship in section 2 as 'active planning and management of medium- and long-term interests, along with associated advice.' The McGuinness Institute acknowledges that a significant amount of work has already been done on mapping the changes in strategic management in the New Zealand public service. We have carried out research on areas where there is a lack of publicly accessible information. This paper will do the following:

- present a timeline of the most important initiatives in strategic management (focusing particularly on the extent to which measurability, integration, long-term focus, transparency, accountability and cost-effectiveness have and have not featured in the strategy stewardship system over time);
- identify key eras of change in the strategy stewardship system; and
- identify lessons that can be applied to strategy stewardship going forward.

2. Timeline of key events

The illustration in Figure 1 provides a record of the key strategic management initiatives, publications and legislative innovations implemented in the public service since the 1980s to illustrate the narrative of reform in this sector. It provides a summary of key events and initiatives that we believe are relevant to the Institute's upcoming publication *Report 15: Strengthening Strategy Stewardship in the Public Service*.

As part of our research, the Institute interviewed officials in the public service. These discussions provided insights from the perspective of individuals working within the service during times of change. Where we were unable to find published sources, observations from these discussions have been used instead, referenced as personal communications. The Institute acknowledges that there may still be gaps in the following summary, and feedback is most welcome on any content of this Working Paper.

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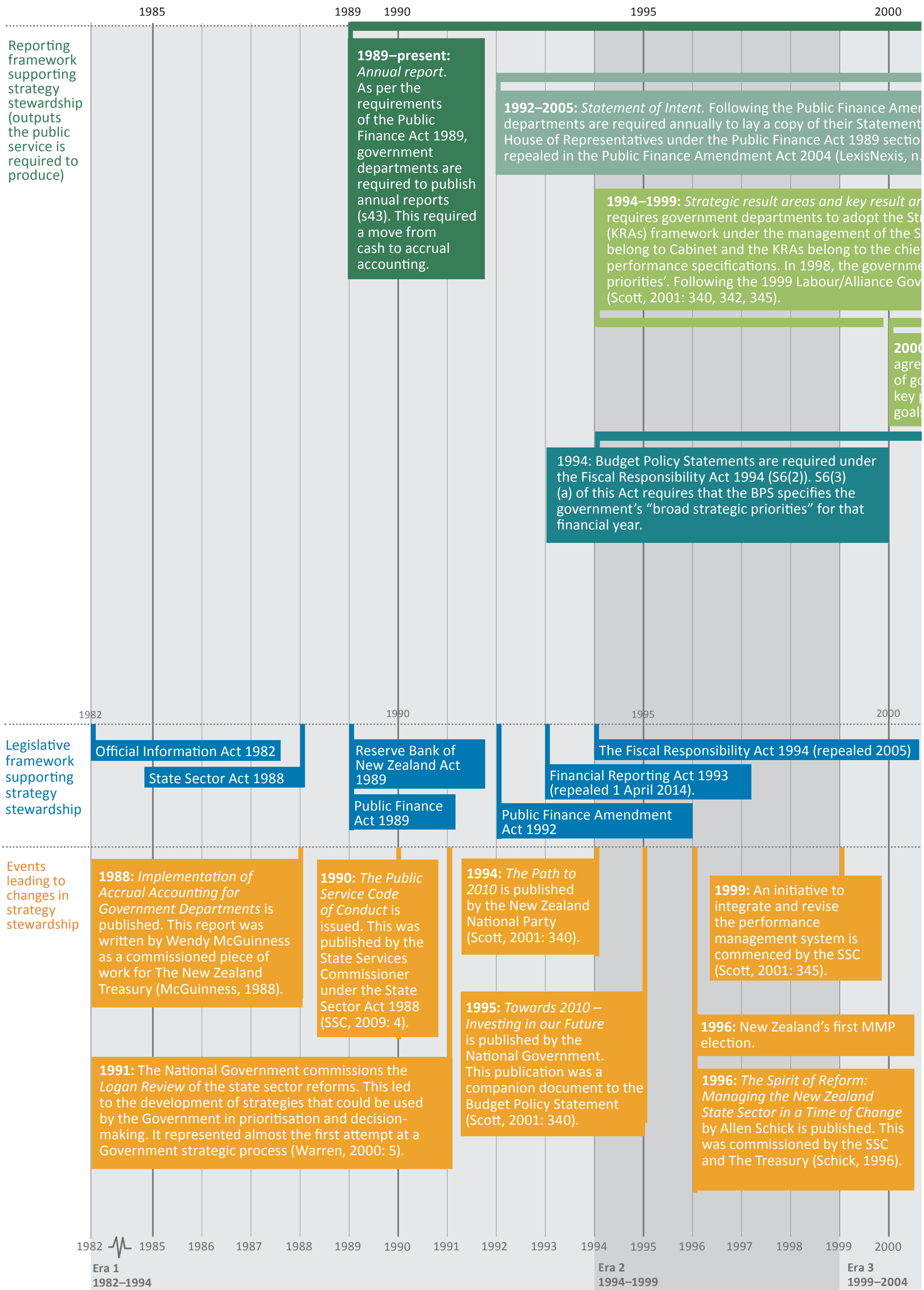
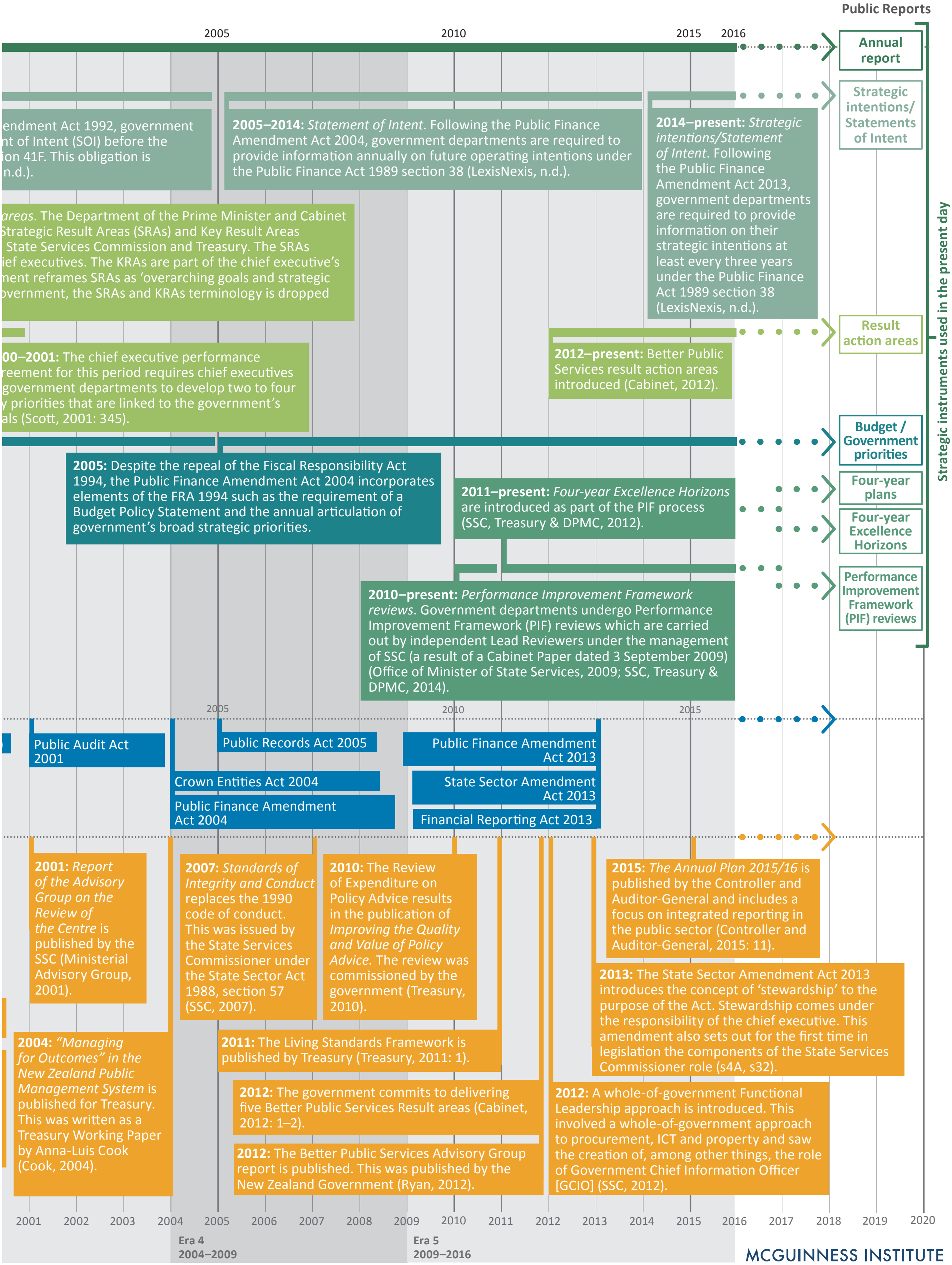
Figure 1: Timeline of strategy stewardship in the New Zealand public service, 1980–2016





Public Reports
2005
2010
2015
2016
Annual report
Strategic intentions/ Statements of Intent
endment Act 1992, government
nt of Intent (SOI) before the
ion 41F. This obligation is
n.d.).
2005–2014: *Statement of Intent*. Following the Public Finance Amendment Act 2004, government departments are required to provide information annually on future operating intentions under the Public Finance Act 1989 section 38 (LexisNexis, n.d.).
2014–present: *Strategic intentions/Statement of Intent*. Following the Public Finance Amendment Act 2013, government departments are required to provide information on their strategic intentions at least every three years under the Public Finance Act 1989 section 38 (LexisNexis, n.d.).
areas. The Department of the Prime Minister and Cabinet
Strategic Result Areas (SRAs) and Key Result Areas
State Services Commission and Treasury. The SRAs
ief executives. The KRAs are part of the chief executive's
ment reframes SRAs as 'overarching goals and strategic
overnment, the SRAs and KRAs terminology is dropped
Result action areas
00–2001: The chief executive performance
reement for this period requires chief executives
government departments to develop two to four
y priorities that are linked to the government's
als (Scott, 2001: 345).
2012–present: Better Public Services result action areas introduced (Cabinet, 2012).
Budget / Government priorities
2005: Despite the repeal of the Fiscal Responsibility Act 1994, the Public Finance Amendment Act 2004 incorporates elements of the FRA 1994 such as the requirement of a Budget Policy Statement and the annual articulation of government's broad strategic priorities.
2011–present: *Four-year Excellence Horizons* are introduced as part of the PIF process (SSC, Treasury & DPMC, 2012).
Four-year plans
Four-year Excellence Horizons
2010–present: *Performance Improvement Framework reviews*. Government departments undergo Performance Improvement Framework (PIF) reviews which are carried out by independent Lead Reviewers under the management of SSC (a result of a Cabinet Paper dated 3 September 2009) (Office of Minister of State Services, 2009; SSC, Treasury & DPMC, 2014).
Performance Improvement Framework (PIF) reviews
Strategic instruments used in the present day
2005
2010
2015
Public Audit Act 2001
Public Records Act 2005
Public Finance Amendment Act 2013
Crown Entities Act 2004
State Sector Amendment Act 2013
Public Finance Amendment Act 2004
Financial Reporting Act 2013
2001: *Report of the Advisory Group on the Review of the Centre* is published by the SSC (Ministerial Advisory Group, 2001).
2007: *Standards of Integrity and Conduct* replaces the 1990 code of conduct. This was issued by the State Services Commissioner under the State Sector Act 1988, section 57 (SSC, 2007).
2010: The Review of Expenditure on Policy Advice results in the publication of *Improving the Quality and Value of Policy Advice*. The review was commissioned by the government (Treasury, 2010).
2015: *The Annual Plan 2015/16* is published by the Controller and Auditor-General and includes a focus on integrated reporting in the public sector (Controller and Auditor-General, 2015: 11).
2013: The State Sector Amendment Act 2013 introduces the concept of 'stewardship' to the purpose of the Act. Stewardship comes under the responsibility of the chief executive. This amendment also sets out for the first time in legislation the components of the State Services Commissioner role (s4A, s32).
2004: *"Managing for Outcomes" in the New Zealand Public Management System* is published for Treasury. This was written as a Treasury Working Paper by Anna-Luis Cook (Cook, 2004).
2011: The Living Standards Framework is published by Treasury (Treasury, 2011: 1).
2012: The government commits to delivering five Better Public Services Result areas (Cabinet, 2012: 1–2).
2012: A whole-of-government Functional Leadership approach is introduced. This involved a whole-of-government approach to procurement, ICT and property and saw the creation of, among other things, the role of Government Chief Information Officer [GCIO] (SSC, 2012).
2012: The Better Public Services Advisory Group report is published. This was published by the New Zealand Government (Ryan, 2012).
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
Era 4 2004–2009
Era 5 2009–2016
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3. Five major eras

The following is a brief summary of the major reform periods that have taken place in New Zealand's strategy stewardship system since the 1980s, showing how the current system has evolved.

Era 1: Early 1980s – The start of the restructuring

The public sector underwent significant reform in the 1980s, which earned New Zealand the label of a world leader in public management (Hughes and Smart, 2012). In the last part of the decade (and the beginning of the next) a suite of legislation was introduced, including the Official Information Act 1982, the State Sector Act 1988, the Public Finance Act 1989, the Reserve Bank of New Zealand Act 1989 and the Fiscal Responsibility Act 1994. This framework of legislation heralded a new era in public sector management in New Zealand.

Before the reforms were implemented in the late 1980s and early 1990s, a major shortcoming of New Zealand's public management system was the lack of clarity around the government's strategic objectives. During this time, Budget statements had a short-term focus (usually one-year) and acted as the main vehicle for articulating the overarching strategic intention of the government (State Services Commission [SSC], 1998).

Part of the new system included a central 'outcome statement' issued by the government. These statements provided a long-term view of the high-level strategic results the government sought to achieve, and were the result of consultations with ministers. However, they were very general documents and they failed to provide the authority and ministerial commitment needed to ensure their effectiveness. Departments were to provide outputs to satisfy one or more of the government's outcomes, but the 'outcome statement' of the kind envisaged was not produced in the first few years of the system. Consequently, departments found it necessary to fill the gaps and make estimations as to the outcomes in their particular focus area. This resulted in a lack of 'coordination and comprehensiveness' across the sector (SSC, 1998).

In 1988 *Implementation of Accrual Accounting for Government Departments* (McGuinness) was published by Treasury. This represented the public sector's move from a 'system based on compliance with detailed and restrictive rules and budget cash limits to a performance and accountability-based regime' (The International Federation of Accountants [IFAC], 1994). The changes in public sector accounting in this era closely mapped the changes in public sector management occurring at this time, evidenced by the introduction of the Public Finance Act 1989. At this time, as per the requirements of the Public Finance Act 1989, government departments were formally required to publish annual reports.

Although there was significant reform during this decade, early strategic thinking lacked measurability and did not clearly map out relationships of accountability. However, the reorganisation of the public sector legislative framework paved the way for more government-wide strategy in the years that followed.

Era 2: Early 1990s – The first attempt at improving strategy stewardship

In 1990 the *Public Service Code of Conduct* was issued by the State Services Commissioner under the new State Sector Act 1988. This identified the core principles of conduct required by public servants (SSC, 2009: 4).

In 1991 the Logan Review – known as the *Logan Report* – was published by the Steering Group Review of the State Sector reforms. This report 'emphasised concerns over the strategic capabilities of the government and the collective interests of the government' (Scott, 2001: 346). This led to the development of strategies that the government could use to inform and prioritise decision making. These appeared in the government's Budget documentation and represented one of the first modern attempts at a government strategic process in New Zealand (Warren, 2000: 5).

In 1992 Statements of Intent were introduced as reporting requirements under the 1992 Public Finance Amendment Act. Section 41F of the Act required government departments to annually lay a copy of their Statement of Intent (SOI) before the House of Representatives (LexisNexis, n.d). This Amendment also changed the reporting requirements of Crown Entities "from straight financial reporting to include specific financial reporting requirements for specific classes of entities" (Scott, 2001: 316).

In 1993 *The Path to 2010* was published by the National Party, which evolved into *Towards 2010 – Investing in our Future* - a government document. The latter accompanied the 1995 Budget Policy Statement. These two documents were designed to set out the government's long-term objectives (Scott, 2001: 340).

After this, *Strategic Result Areas for the Public Sector, 1994–1997* was published. This contained a strategy focusing on national economic development and social cohesion. SRAs were designed to 'shape the priorities of the agencies of government' (SSC, 1998). From 1994 to 1997, the following Strategic Result Areas (SRAs) were put in place:

> Maintaining and accelerating economic growth
> Enterprise and innovation
> External linkages
> Education and training
> Community security
> Social assistance
> Health and disability services
> Treaty claims settlement
> Protecting and enhancing the environment (Matheson, Scanlan & Tanner, 1997: 17)

A number of agencies contributed to each of these SRAs. The coordination of their development was overseen by the Department of the Prime Minister and Cabinet (DPMC) (Office of the Auditor General, 1999: 47). They were supported in turn by key result areas (KRAs), which set departmental priorities for each of the above areas. These priorities included measurable targets that enabled ministers to track their progress. The State Services Commissioner and relevant ministers assessed the performance of departments and of chief executives using KRAs (Office of the Auditor General, 1999: 47). These assessments, in the form of annual documents, were usually conducted at the end of each chief executive's performance agreement (Matheson, Scanlan & Tanner, 1997: 7). This completed the 'loop', as feedback from this process contributed to the next performance agreement (Matheson, Scanlan & Tanner, 1997: 7).

Shaw and Eichbaum (2008) discuss this area of reform, explaining that initially:

> Cabinet government appeared to be rather more fragmented than was desirable, with individual Ministers involved in purchasing arrangements which were not always linked to a strategic, whole-of-government vision. (p. 81)

They state that the SRA/KRA matrix was an attempt to build a whole-of-government strategic outlook:

> In an attempt to connect the government's policy objectives with the implementation activities of departments and agencies, the framework created Strategic Result Areas (SRAs) and Key Result Areas

> (KRAs). The former codified Cabinet's policy priorities, and the latter established the departmental/agency contributions to achieving those objectives [...] However, even though these developments revealed a growing awareness that effective implementation demands coordination across policy portfolios and domains, by 2004 neither the SRA/KRA matrix nor ministerial teams featured in the strategic armoury of Cabinet government. (Shaw & Eichbaum, 2008: 81)

Despite the intention, as it was put into practice the SRA/KRA matrix came to be utilised more as a set of 'checklists' rather than guiding substantive and tangible improvements to department outputs and strategic management. This system was eventually abolished without any replacement framework in place (Warren, 2000: 5).

In 1996, New Zealand's first MMP election took place which perhaps signalled the need for a cohesive all-of-government strategy. In the same year, Allen Schick wrote *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, which become known as The Schick Report. This report was commissioned by the State Services Commission to reflect on the changes made to the public sector's management framework (Schick, 1996).

Strategic management at this time was not integrated across all departments. The surface-level strategic instruments in place lacked measurability. Furthermore, they were not sufficiently transparent to the general public.

Era 3: Late 1990s to early 2000s – Establishing broader priority areas

In 1998, after work was initiated by ministers to revise the government's approach to strategy, the SRA/KRA matrix was supplemented with 'a reduced set of "strategic priorities and overarching goals" (SPOGS) that were promulgated by the Government on 9 December 1998' (Office of the Auditor-General, 1999: 47). The Auditor General's third report for 1999, *The accountability of Executive Government to Parliament* paper, discussed the interaction of SPOGS and SRAs and described SRAs as 'a comprehensive statement of, at least, the Government's strategic priorities' (Office of the Auditor General, 1999: 48). This report also highlighted the issue of using SPOGs or SRAs and KRAs as outcome statements in the Estimates, or as substitutes for outcome statements in situations of 'fundamental constitutional importance,' as their form and usage was unregulated and 'not specified with any greater precision than any other outcome statements' (Office of the Auditor General, 1999: 48).

In 1996 the National and New Zealand First parties formed the first coalition government seen in New Zealand since the 1930s. This saw the drafting of an extensive coalition agreement. However, the level of detail in the document was excessive and made the agreement inflexible and ineffective. It is now generally regarded as an example of 'what not to do' during post-election strategising (Personal communication, 18 May 2015).

In 1997 the National Government released its priorities as part of its government Budget Policy Statement (Treasury, 1997:5). Since then broad government priorities have been published at the start of every Budget Policy Statement.

In 1999 the newly elected Labour Government established seven key priority areas. These were listed in the 1999 Budget Policy Statement as:

> We want a strongly growing, internationally competitive enterprise economy; an economy which generates trade, employment, income and social opportunities in which all New Zealanders can participate.

> We value innovation and our ability to build on new ideas and technologies. Our future prosperity depends on our ability to adapt, and we must be prepared to create and take advantage of new opportunities.
>
> We place a high value on the pivotal role and contribution that individuals, families, communities and the private sector make to building an economically strong and socially cohesive New Zealand.
>
> We want to focus our social assistance in welfare and housing on those most in need; making a difference by breaking cycles of disadvantage.
>
> We treasure our clean, healthy and unique environment and will ensure it continues to sustain nature and people's needs and aspirations.
>
> Recognising the importance of the Treaty of Waitangi, we will ensure that through the Government's policies and actions we continue in good faith to build relationships between the Crown and Maori.
>
> We are proud of our New Zealand identity and will celebrate, foster and protect our cultural, historical and environmental heritage. (Treasury, 1998: 6 [abridged])

There was, however, difficulty in using these priorities as drivers of change. Up until this point, incoming governments tended to produce manifestos that set out their desired policy goals. However, this was not effective, as policy goals were sometimes rendered unattainable when incoming governments discovered that 'the books' were in worse shape than expected. As a response to this issue, political parties began to set broader policy positions.

A number of reviews of the New Zealand public sector occurred between 1996 and 2001. Of particular influence was the *Review of the Centre*, published by the State Services Commission in 2001. It contained the findings and recommendations of the New Zealand state sector review undertaken in 2001 by a Ministerial Advisory Group. This report described the public sector as highly fragmented. One of the report's recommendations was that the government set high-level priorities to drive departmental outputs. This idea was adopted by the Clark Government and continued by the Key Government. The report stated:

> The system is not particularly good at assisting Ministers to articulate their common objectives and priorities, and the means to be employed to achieve those. A number of stakeholders and commentators, including chief executives and senior Māori emphasised the need for clarity on directions and expectations, particularly in relation to issues or intentions impacting across sectors or the whole of government. The clearer Ministers can be about what they want to achieve, and about how Cabinet collectively prioritises its goals, the more effectively departments and Crown entities will be able to respond. Weaknesses include:
>
> The lack of a systematic approach to setting outcome goals and priorities and identifying the services and other interventions that will achieve the goals;
> Problems with policy advice, including the availability of information on practical service delivery and the effectiveness of government activities;
> Variable standards of planning by government agencies;
> Linking government objectives to resource allocation decisions. This has implications for Budget process and for the way Ministers collectively decide priorities.
> A tendency towards a short term focus;

The difficulty of stopping doing things which are ineffective;
The fragmentation of the State sector – the large number of agencies, portfolios and votes makes it more difficult to agree and actively pursue cross cutting objectives, and provide integrated service delivery;
Varying requirements for information production by Central Agencies and other groups leading to costly compliance and unread reports. (Ministerial Advisory Group, 2001: 14-15)

Additionally, the *Review of the Centre* contained a summary of the other recent reviews of the public sector, which all identified the need for greater clarity around strategic intentions (Ministerial Advisory Group, 2001: 45).

Era 4: Mid to late 2000s – Incorporating long-term thinking and the creation of performance improvement frameworks

In 2004 the Public Finance Act 1989 was amended in response to the core issues identified by the *Review of the Centre*. The intention of this amendment was to bring the Fiscal Responsibility Act within the Public Finance Act. It did not substantially alter the Fiscal Responsibility Act but it did introduce long-term fiscal reports as a reporting requirement. Arguably, this paved the way for departments to include more long-term thinking in their strategies.

In 2005 the former section of the Public Finance Act 1989 that governed Statements of Intent was repealed by the Public Finance Amendment Act 2004 (LexisNexis, n.d). The 2004 Amendment Act introduced the concept of 'future operating intentions' under section 38 of the Public Finance Act 1989. Under this section, before the start of each financial year (and no later than the date specified by its responsible minister), each department was required to provide information on its future operating intentions. Although this legislative provision concerned the strategic intentions of the department, the new amendment did not specify that this had to be contained within a separate Statement of Intent document (LexisNexis, n.d).

2005 also saw the introduction of the Public Records Act which seeks to enhance public confidence in the integrity of public records and local authority records by supporting the role of the Chief Archivist in government record keeping. It ensures that government reliably keeps records as a way of making certain that government information is accountable and holds integrity. It requires Public Offices to create and maintain full and accurate records of their business activities. Government archiving is administered by Archives New Zealand, which is under the control of the Chief Archivist. Any information held for more than 25 years is classified as either open or restricted access. Unless there is a good reason for restricting public access it must be classified as open. In Part 2, Section 17 of the Act, the requirement that "every public office must maintain in an accessible form...all public records that are in its control" is set out.

In addition, 2004 saw the introduction of the Crown Entities Act. This clarified the relationships of accountability between Crown entities, the board members of these entities, their responsible Ministers and the House of Representatives (Treasury, 2014).

Also in 2004 *"Managing for Outcomes" in the New Zealand Public Management System* by Anna-Luis Cook was published as a Working Paper by Treasury. The paper analysed the moves being made towards a results-based style of public management, and asserted that aspects of the wider management system must be amended to support these moves (Cook, 2004: i).

In 2009 the Performance Improvement Framework (PIF) was proposed to Cabinet by the Minister of State Services, adopted from a model used in the United Kingdom (SSC, Treasury & DPMC, 2012). This is a joint Central Agency initiative allowing for consistent evaluation across agencies. It was implemented in part to address concerns about a perceived lack of accountability in the public sector in terms of improving departmental performance. There are many aspects of the PIF that focus on current departmental improvement, and the analysis extends also to consideration of how well an agency is responding to government priorities and how it will deliver outcomes in the future.

In 2010 a review of expenditure on policy advice was commissioned by the Government, resulting in the publication of *Improving the Quality and Value of Policy Advice*. This report put forward 36 recommendations to the Government based on the report's findings that policy was neither well-planned nor well-managed (Treasury, 2010). This resulted in 16 high-level recommendations:

- Reorganise policy-related appropriations
- Generate savings through reviews of policy advice-related appropriations and policy advice expenditure targeted at growth and/or low value spending (e.g. regulatory policy advice)
- Develop and use management information systems and tools to manage policy work programmes
- Generate an efficient dividend by reducing spending and recycle the savings on cross-agency policy challenges
- Agree explicit and costed multi-year policy work programmes between ministers and agencies
- Make government overall goals clear
- Organise portfolios and agency policy functions in clusters
- Review the policy advice function of Crown entities
- Commission work on cross-portfolio and/or long-term issues and/or investment in policy capability/infrastructure
- Develop and use processes to ensure that policy analysis and advice is of high quality
- Strengthen the policy advice-related skills of chief executives and policy leaders
- Improve the process of developing policy advice
- Improve the management and dissemination of data and information
- Improve management structures and capability
- Professionalise analytical capability
- Build analytical capability (Committee Appointed by the Government to Review Expenditure on Policy Advice, 2010: 60-64)

This period saw a renewed focus on long-term thinking in government and strove to create more integration across departments. This demonstrated an increasing desire to formulate standardised, measurable ways of analysing progress towards strategic objectives.

Era 5: 2010 onward – Introducing the concept of stewardship in legislation

In 2011 Treasury developed the *Living Standards Framework* to act as a guide for policy analysis (Treasury, 2011: 1).

In the same year, the Four-year Excellence Horizon was introduced as part of the PIF process. This is said to have added an element to the PIF process which, rather than being purely managerial, focused on institutional capacity for the future (personal communication, 3 December 2015).

In May 2011 the Better Public Services Advisory Group was established and in March 2012 their report was officially published by the New Zealand Government (Ryan, 2012: 16). This report led to the Better Public Services programme, which aims to create a state sector that delivers 'high-quality, flexible and cost-effective public services' (Ryan, 2012: 16). The report identified the fragmented nature of the state services and advised that government priorities need to be clarified so that 'state agencies [...] can do a much better job of delivering them' (Better Public Services Advisory Group, 2011: 6).

In 2013 the government responded to recommendations made in the *Better Public Services Advisory Group Report* and introduced its Better Public Services initiative. This is a set of ten overarching results to be achieved by the public sector as a whole by 2018. The results are general and cross-departmental, and aim to contribute to a reform of the state sector that would see it become less siloed through integration (Ryan, 2012: 17). This collective approach to improving the delivery of public service results is in line with the recent legislative reforms which enable departmental collaboration. Some commentators have noted that these 'results' fulfil the same function as the 'outcomes' of the mid-2000s, but they have been renamed due to the need to distance them from the failed 'managing for outcomes' approach (Ryan, 2012: 20).

The results sought are summarised by the State Services Commission, stating that the government aims to do the following:

- Reduce the number of people who have been on a working age benefit for more than 12 months.
- Increase participation in early childhood education.
- Increase infant immunisation rates and reduce the incidence of rheumatic fever.
- Reduce the number of assaults on children.
- Increase the proportion of 18-year-olds with NCEA level 2 or equivalent qualification.
- Increase the proportion of 25 to 34-year-olds with advanced trade qualifications, diplomas and degrees (at level 4 or above).
- Reduce the rates of total crime, violent crime and youth crime.
- Reduce reoffending.
- New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business.
- New Zealanders can complete their transactions with the Government easily in a digital environment. (SSC, 2013a)

Also in 2013, the State Sector Amendment Act saw the introduction of 'careers boards': a system intended to develop leadership across the public sector. Eighty roles were identified as key positions in the delivery of operational services or of emergency response. Under the State Sector Amendment Act 2013, a sign-off from the State Services Commissioner must be obtained before appointing one of these key positions (SSC, 2013b: 10).

The amendments in this year also emphasised the importance of stewardship within the public sector. A good description of the relevance of stewardship to the public sector can be found in the Treasury's factsheet about the State Sector and Public Finance Reform Bill 2012:

> The stewardship responsibility reinforces that chief executives administer their departments on behalf of others, notably current and future Ministers and ultimately all New Zealanders. The responsibility requires chief executives to plan actively and manage for the medium and long-term interests. This applies to a whole range of things including departmental sustainability, organisational health, capability, the capacity to offer free and frank advice, the stewardship of assets and liabilities on behalf of the Crown and legislation administered by the department. Ultimately, a chief executive should leave the department in better shape than when he or she took office (Treasury, 2013: 2).

The State Sector Amendment Act 2013 saw the implementation of the concept of stewardship in Section 1A ('Purpose') and Section 4A ('Role of the Commissioner'). Section 32 ('Principle Responsibilities'), which describes the responsibilities of chief executives, now includes stewardship as one of the key accountabilities. This Amendment set out in legislation for the first time the components of the Commisioner role.

The Public Finance Amendment Act 2013 replaced the section 38 requirement for departments to provide information on future operating intentions with a requirement that they provide information specifically on their *strategic* intentions (LexisNexis, n.d). The information regarding a department's strategic intentions must relate to the forthcoming financial year, and at least the following three financial years (Public Finance Act, section 38(2)(a)). The department must provide this information at least once every three years (Public Finance Act, section 38(4)(a)). This section governs the current form of strategic intentions (or SOIs, if departments choose to continue with the older separate document format) must take under the Public Finance Act 1989.

In 2015 the Auditor General indicated that integrated reporting in the public sector would continue to be explored as a way to streamline financial and accountability reporting (Controller and Auditor General, 2015: 11).

Increased integration across the public sector has consistently been recommended since the early 2000s. The most recent set of amendments to the core state sector suite of legislation (Public Finance Act, State Sector Act and Crown Entities Act) focuses on this issue. The increased focus on integration encourages a holistic view of services to the public rather than one that isolates them within departmental boundaries, and has seen the introduction of numerous new initiatives in the last few years.

A key observation from this period is that legislation now requires government agencies to pay heed to stewardship throughout the public service. However, a clear map of the accountability relationships within this framework is missing, as is a thorough integration and monitoring of strategic narratives. While a great deal of work has been done in this area, there is still room for improving the strategy stewardship system going forward.

4. The current-day key reporting requirements

The following accompanies the timeline in Figure 1 and acts as a brief explanation of each of the key reports or strategic instruments currently used by government departments. This research will be expanded upon in the full report, *Report 15: Improving Strategy Stewardship in the Public Service*, which will be published later in the year.

4.1 Annual reports

Section 43 of the Public Finance Act requires each government department to prepare annual reports at the end of each financial year, and Section 150 of the Crown Entities Act 2004 requires crown entities do the same. Furthermore, Section 151(2) of the Crown Entities Act 2004 specifies:

> The annual report must provide information that is necessary to enable an informed assessment to be made of the entity's operations and performance for that financial year, including an assessment against the intentions, measures, and standards set out in the statement of intent prepared at the beginning of the financial year.

The annual reporting process is crucial to ensuring Crown entities are accountable to parliament and to the public. Annual reports allow the use of resources and performance of a Crown entity to be monitored. They are instrumental in ensuring the Crown entity is well governed, and they allow performance to be assessed over time (Treasury, 2015b).

4.2 Budget policy statement

Government's Budget is prepared every year by Treasury and presented in May. The Treasury's part in New Zealand's Budget consists of:

> advising the Minister of Finance on Budget policy;
>
> preparing the macroeconomic and fiscal forecasts;
>
> compiling and processing Budget initiative proposals from vote ministers; and
>
> preparing Budget documents such as the estimates, the Budget economic and fiscal update and the fiscal strategy report. (Treasury, 2015a)

As part of the Budget process the Treasury also releases a fiscal strategy report annually. This report outlines the government's fiscal policy objectives over a period of at least ten years and is required by the Public Finance Act 1989.

4.3 Four-year plans

Public departments are required to release a four-year plan (4YP) each year as part of the annual budget cycle. Whilst 4YPs are not required by any legislation, they are a crucial part of the internal budget process. They are intended to create more certainty for departments over the resources that will be used over the four year period, as well as instilling confidence in Ministers that services will be delivered within these constraints.

The State Services Commission provides a 4YP guide every year, explaining what a good 4YP looks like and noting any changes from previous years. The following is a brief description of the last three years' guides.

The *2015 Four-year Plan Guide* emphasised the intention for 4YPs to become the 'key strategic planning document for agencies' (Treasury & State Services Commission, 2014: 6).

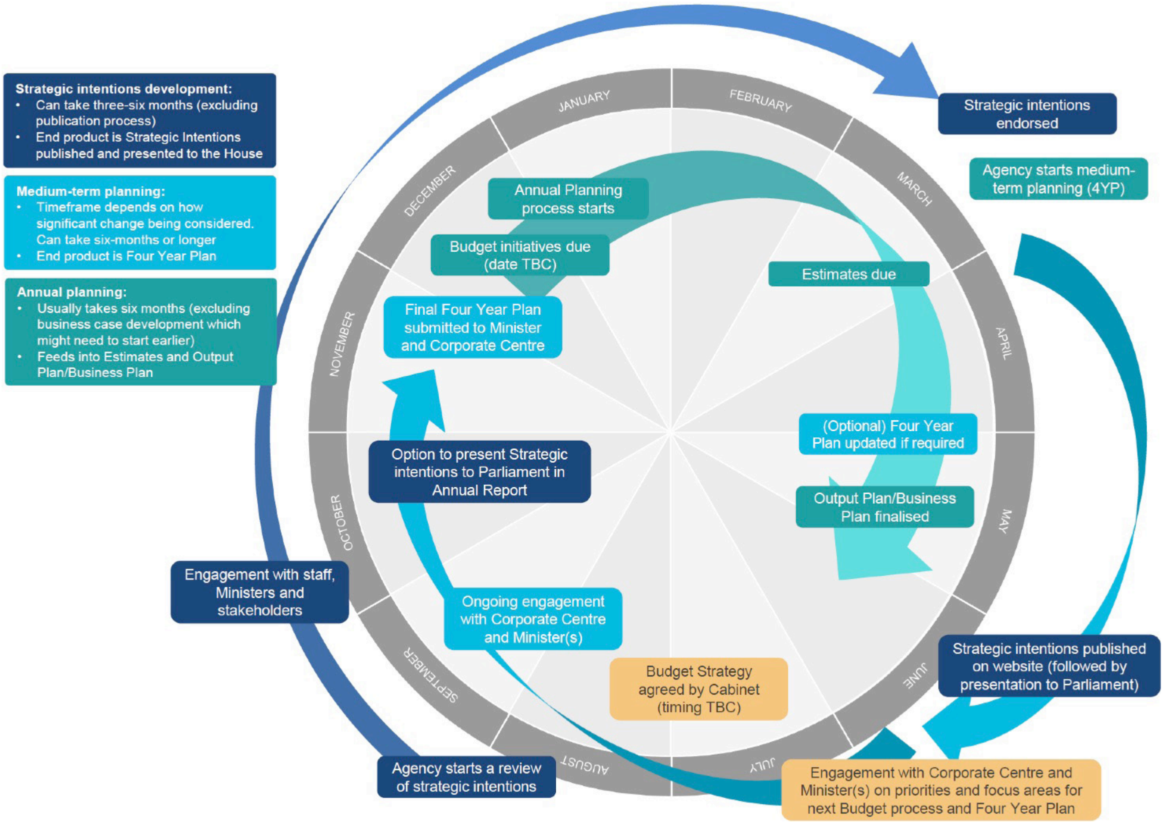
2016's 4YP guide describes them as a:

> snapshot of where [the] department is at in its strategic planning cycle. As a result the Four-year Plan should provide insight into [its] thinking and decision-making at a particular point in time, setting out where there is surety on direction and plans and where there are still things to be resolved or worked through. (Treasury & SSC, 2015: 11)

The 2016 Four-year Plan Guide showed a greater focus on the strategic planning process, rather than the end product (Treasury & SSC, 2015: 3). The 2016 guide holds that 4YPs should be firmly grounded in the wider government and sector picture, displaying how a department will respond to government priorities. It encourages strategic-planning in a cross-functional and cross-sector manner. They should have clear linkages with the department's Annual Report and vice-versa. PIF Reviews and departments' SOIs should also be drawn on in setting out the strategic objectives the department intends to achieve or contribute to. These need to meet the requirements in the Public Finance Act 1989 for strategic intentions (Treasury & SSC, 2015: 11, 13, 14). The 2016 Four-year Plan Guide sets out three main questions for departments to ask when formulating their Four-year Plans, one of which is "[w]hat are the department's strategic objectives (why does this department exist)?" (Treasury & SSC, 2015: 4).

The 2017 Four-year Plan Guide appears to place more of an emphasis on assisting departments to understand where the Four-year Plan sits in the strategic and corporate framework, answering questions such as "[h]ow do [the Four-year Plans] fit in with other processes and documents?," and "[h]ow are they used by Ministers and the Corporate Centre?"[1] (Treasury & SSC, 2016: i). It reinforces the idea that Four-year Plans are to be the central document for the medium-term strategic planning process (Treasury & SSC, 2016: 13). The 2017 Guide sets out very clearly in comparison to other years that the Four-year Plan should act as a key document which provides assurance on a department's stewardship requirements, sustainability, and integration (both internally and externally). Figure 1 below appears in the 2017 Four-year Plan Guide and illustrates the relation between strategic intentions development, medium-term planning and annual planning (Treasury & SSc, 2016: 14).

Figure 1 Strategic planning cycle



4.4 Performance improvement framework

The performance improvement framework (PIF) is a framework initiated to drive performance improvement across the public sector. The initiative was first developed as a pilot programme in 2009 by the Department of the Prime Minister and Cabinet (DPMC), the SSC and the Treasury: collectively, the central agencies. The PIF was developed so that the central agencies 'have a complete and consistent basis for evaluating performance, identifying the actions necessary to improve performance, and monitoring the implementation of such actions' (Office of the Minister of State Services, 2009: 1).

1 The Corporate Centre is composed of the SSC, Treasury and Department of Prime Minister and Cabinet.

From the 2009 Cabinet Paper:

> When implemented, it [PIF] will allow consistent feedback from the centre to agencies on performance. The use of common language and transparency will increase the understanding of performance by agencies, and will strengthen a culture of continuous business improvement and accountability for results. (Office of the Minister of State Services, 2009: 2)

The PIF agency review is divided into three stages: delivery of government priorities, delivery of core business and organisational management (SSC, Treasury & DPMC, 2014).

The PIF also requires departments to produce a 'Four Year Excellence Horizon'. This is a 'strategic narrative written by the lead reviewers as a way for a senior team to understand and stay ahead of emerging opportunities and to respond quickly to unexpected issues' (SSC, Treasury & DPMC, 2014: 1).

More Institute research may be completed in this area in the future to understand more about the PIF's place in the hierarchy of the strategy stewardship system.

4.5 Statements of intent and strategic intentions

Statements of intent (SOIs) are annually produced reports outlining the focus of the next three to five years of each public department. SOIs are required by Section 39 of the Public Finance Act 1989 to be made publicly available and to be displayed on each department's website. As a result of recent legislative change, SOIs are not strictly required to be included in a separate document named 'Statement of Intent'; rather, they can be incorporated into other strategic documents such as the four-year plan or Annual Report. This is so long as they conform to the 'strategic intentions' content requirements detailed below.

SOIs influence the 'medium-term strategic direction' of a department. They have a four-year focus and must be updated at least every three years. A new SOI can be requested by a minister at any time (SSC, 2014b: 35).

The State Services Commission (2014) recommends that an SOI should adequately cover:

> whether the strategy is sustainable;
> whether the entity has met the legislative requirements for SOIs;
> how well the entity strategy is articulated and if it responds to […] priorities;
> if the entity's business models make sense;
> analysis of the relationships with stakeholders and how the entity will work with other agencies;
> review of financial risks to the Crown;
> the effectiveness of the strategic review process; and
> which areas the monitor intends to focus on in the coming year (State Services Commission, 2014: 35).

It is interesting to note that in 2015, 19 out of 22 departments still prepared SOIs in a separate document (sometimes called the 'statement of intent' and sometimes they were named the 'strategic intentions'). Two departments included a strategic intentions section within their four-year plan whilst one department included discussion of strategic intentions in their Annual Report.

Across departments, there is no consistency as to where a member of the public might find strategic thinking. This information might be in the four-year plan, the Annual Report, or as a separate statement of intent/strategic intentions.

5. Summary

What we expected to find:

- That the history of the strategy stewardship system in New Zealand would be peppered with efforts to reform and streamline strategic management at the whole-of-government level.
- That there would be an overall vision of what the strategy stewardship system should look like, as well as a high level of ownership and management by SSC, Treasury and DPMC.
- That the strategy stewardship system would be cohesive, durable, cost-effective and transparent over time.

What we found:

- That the strategy stewardship system is a collection of instruments and tools, each representative of certain stages and phases of government reform.
- That the current system appears to be too flexible and delivers little shape to strategy development and alignment across the public service.
- That legislation has been the instrument of choice to bring about change (as indicated by the number of amendments to the two key acts – the State Sector Act and the Public Finance Act).
- That alternative instruments to improve the strategy stewardship system were not apparent. Some such methods we hoped to find would have been a current map of the strategy system, concise guidance documents and examples benchmarking best practice.
- That there exists a significant opportunity to improve public service outcomes.
- There is no key guidance document for government departments on how to write government department strategies (GDSs). Drafting on strategic thinking generally is not centralised by a guide or instruction manual. Guidance only exists for drafting four-year plans; however, this is not a comprehensive guide on how to best include strategic thinking within these documents.

What we suggest:

- That a map of the strategy stewardship system is created.
- That the number of instruments and tools in the strategy stewardship system should be trimmed down so that the weak spots may be identified and the useful instruments strengthened and connected.
- That efforts be made to understand current arrangements of cross-agency reporting horizontally and vertically.
- That each government department's Annual Report lists all of their currently operational government department strategies (GDSs) and those that have been retired over the 12 month period.
- That the Corporate Centre create a tentative guide for developing government department strategies in the public service and provide examples of good practice.

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