

**Departmental Uptake of the
Managing for Outcomes Initiative**

An Independent Evaluation

Economics & Strategy Group

**Final Report
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Table of Contents

Executive Summary	4
Introduction	4
Major Findings	4
Recommendations	6
Main Report	8
1. Introduction	8
1.1 Background to the MfO Initiative	8
1.2 Independent Evaluation: Terms of Reference and Scope	8
1.3 Methodology and Limits of the Evaluation	9
1.4 Structure of the Report	10
2. What is “Managing for Outcomes”?	10
2.1 Purpose	10
2.2 As Described in Official MfO Documentation	11
2.3 An Implied Implementation Process	13
3. Extent of MfO Uptake In the Surveyed Departments	15
3.1 Strategic Planning Processes	15
3.2 Management and Organisational Change	18
3.3 Results (Policy and Service Impacts)	21
3.4 A Mini Case Study: Dept of Corrections	21
4. Assessing Progress: Successes and Roadblocks	23
4.1 Content and Quality of Outcome Frameworks	23
4.2 Usefulness of Outcome Frameworks	25
4.3 Linkages to Outputs, Business Plans and Performance Measures	26
5. Outstanding Issues	27
5.1 Quality and Consistency vs. Flexibility and Learning	27
5.2 Meaning and Implications of “Vital Outcomes”	28
5.3 Managing for Outcomes vs. Accountability for Outcomes	29
6. Feedback from Departments	32
6.1 Process Followed	32
6.2 Quality Assurance for Outcome Frameworks	32
6.3 Multiple Votes and Vital Outcomes	33
6.4 MFO and Accountability Concerns	33
6.5 Other Comments	33

Attachments

1. Proposed Survey Sample of Departments for MfO Process Evaluation	35
2. Terms of Reference for Independent Evaluation	36
3. Independent Evaluation Interviews: Paper outlining “Key Issues for Discussion“	37

Abbreviations

CAP	Capability, Accountability and Performance (pilot project)
DHB	District Health Boards
DIA	Department of Internal Affairs
GIF	Growth and Innovation Framework
MED	Ministry of Economic Development
MfO	Managing for Outcomes (Initiative)
MoT	Ministry of Transport
MoRST	Ministry of Research, Science & Technology
NZHS	New Zealand Health Strategy
NZTS	New Zealand Transport Strategy
OAG	Office of the Auditor General
SSC	State Services Commission
TPK	Te Puni Kokiri

Departmental Uptake of the Managing for Outcomes Initiative

An Independent Evaluation

Executive Summary

Introduction

This independent evaluation of departments' uptake of the Managing for Outcomes (MfO) initiative was commissioned by the MfO Steering Group. The assessment was undertaken separately from, but in parallel with, an evaluation by officials that focused on the quality of central agency support provided to departments in implementing MfO concepts and tools.

The independent evaluation involved a survey of seven departments, six of which have been engaged in the MfO initiative for two or more years.¹ The following findings and recommendations were based primarily on interviews with CEs and senior managers from those departments, interviews with central agency staff and from analysis of MfO guidance materials and departmental MfO-related documents. The views of departments on an initial draft of this report were taken into consideration in preparing this final version.

Major Findings

1. Managing for outcomes, in which departments are expected to develop a more results-oriented approach, is a *long-term process*. Of the 7 departments, only Corrections can be said to have moved clearly beyond the initial strategic planning phase to "managing for outcomes". However, the Transport sector is also well experienced in this approach.
2. The benefits of the MfO approach, in terms of discernible changes in departmental impacts and results, may take at least 6-10 years to emerge in most sectors. Judging the overall efficacy of the MfO approach at this time is difficult in view of these time lags.
3. Each of the surveyed departments has made significant efforts to apply MfO concepts and tools. The principal output to date has been the compilation of an SOI incorporating a strategic (outcomes) framework. Most departments have made good progress in refining their description of outcomes in one or more subsequent SOIs.
4. The MfO model is more readily applied in a *service delivery* context. Application to policy/regulatory/funding ministries raises particular challenges in defining intervention logic. Even so, some have made good progress in applying MfO concepts and tools.
5. The approach taken by the surveyed departments in describing their strategic frameworks varies considerably, particularly in terms of the level of analysis and detail that accompanies each department's *intervention logic* – i.e. the specification of how and what that department expects its activities to contribute to their outcome set.

¹ Department of Corrections (4+ years), MoRST (3 years) Treasury, MED, DIA and MoH (all 2 years) and MoT (1 year).

6. The *number of outcomes* identified by departments varies significantly. Guidance on what to do about this, including especially central agency advice to develop priority (or “vital few”) outcomes, has generated uncertainty on this issue, e.g. MoT.
7. The *quality* of outcome frameworks as a basis for developing organisational strategies, policy advice and service delivery operations and capabilities ranges from basically sound to quite weak. Unless corrected, weak strategic frameworks could contribute to serious management problems in those departments.
8. Most departmental and central agency staff agree that moving to the next stage – i.e. *operationalising the SOI* – is the acid test of the MfO initiative. “Managing for change” and “building systems” around the new outcome objectives were cited as important here. However, there it is not clear yet what managing for outcomes should mean in terms of specific changes to organisational structures, processes or capabilities.
9. Some departments have established *working groups* to address these issues but already see considerable difficulties in taking the next basic steps - i.e. linking their outcome sets to business plans, outputs and performance measures. This task is more complex than MfO guidance materials suggest. Further conceptual development, guidance and dissemination of good practice is needed/expected of central agencies in these areas.
10. The quality of a department’s intervention logic is a significant factor in knowing how and where to proceed beyond the SOI. Departments with mostly *high level outcomes* are tending to focus on high level measures, acknowledging limited attribution. However, departments with better-articulated and more detailed intervention strategies face *more complex measurement tasks*. The latter approach promises greater long-run gains.
11. SOIs and the measurement of progress towards outcomes under are raising significant *accountability concerns* amongst some CEs, senior managers and central agency staff. OAG intentions with regard to departmental audit and assessment further underscore the potential complications around this issue.

Successes

- For most departments, developing an SOI has increased and improved dialogue amongst senior managers concerning departmental purpose and focus. It has been especially useful for new CEs undertaking organisational reforms and for bringing peripheral units or activities into a common purpose.
- Developing an outcomes framework has enabled some departments to underpin the Government’s sector-wide strategies with a statement of more tangible departmental objectives and contributions.
- SOIs have provided a useful communications tool for dialogue with other sector agencies around outcomes issues and, to some extent, helped clarify some departmental responsibilities and resourcing issues within the sector.
- Some “good practice” models are already emerging. These include: tighter specification of departmental contribution to outcomes (Treasury), identification of key interventions for building system capability (MoH), outcome-related “visioning” of future policy and operational environments amongst managers (MED), increased focus on outcome-related risks and risk management needs (DIA) and use of internal policy coordination (“theme”) managers (Treasury).

Constraints and roadblocks

- High-level outcome frameworks may have constrained the development of realistic and effective operational strategies and business plans. The more ambitious “reach” outcomes tend to be presented as more important, despite being less within the control or influence of the department.
- The task of identifying, developing and evaluating effective and useful performance measures is an onerous one and seems likely to exceed available skills and resources; it may even distort future workloads in some departments.
- As a result, easy-to-collect (mostly high level) performance indicators in some sectors (e.g. RS&T, health and economic performance) may be substituted for more operationally relevant measures. Also, departments may simply measure what they can afford to, omitting potentially critical interventions.
- Inconsistencies in the MfO approach of departments, including lack of precision in outcome description, could easily impede (or over-state in some cases) the opportunities for cross-agency collaboration.

Recommendations

1. Flexibility and innovation are key features of the MfO initiative. However, greater emphasis should now be placed on raising the quality and consistency of outcome frameworks, together with their linkages to business plans and outputs. This could be achieved through:
 - the establishment within central agencies of a specialised, experienced and stable MfO support capability (team),
 - improved guidance to departments, including more distribution of “good practice” examples, especially for policy advice/funding departments, and
 - the introduction of a quality assurance process involving peer review of strategic frameworks, with external expertise (for example on performance measurement issues) where appropriate.
2. MfO involves special operational considerations for departments with multiple votes and/or multiple ministers. Guidance on vital outcomes, in particular, should be clarified to ensure that departments:
 - have an operationally feasible number of outcomes to manage for,
 - do not leave themselves open to criticism that certain activities (and/or ministers) are being accorded insufficient priority, and

- are not encouraged to prioritise outcomes on the basis of “reach”, or political impact, at the expense of performing core functions or complying with resource constraints.
3. The distinction between “managing for outcomes” and “non-accountability for outcomes” requires further, careful consideration and clarification in order to protect the integrity of the public sector accountability framework. The MfO Steering Group should therefore work with central agencies to determine:
- through appropriate administrative arrangements or instructions, the respective accountabilities of ministers and department officials for the outcomes stated in an SOI (and in the Estimates), especially for departments with multiple votes and ministers,
 - the precise basis and information on which the audit and performance assessment of departments will be routinely conducted by the OAG (and central agencies on occasion) to ensure, amongst other things, that managerial objectives and performance assessment are effectively aligned, and
 - the extent, if any, to which the assessment of CEs’ performance will be influenced by, or based on, the progress made by departments towards their achievement of outcomes (as opposed, for example, to the efficient selection, management and delivery of outputs).
4. The task for departments in identifying and fulfilling their capability requirements with regard to performance measurement and evaluation is a major one and should not be left to individual departments to resolve. The MfO Steering Group should identify responsibilities and opportunities for centrally-coordinated responses to this need.

Departmental Uptake of the Managing for Outcomes Initiative

An Independent Evaluation

Main Report

Section 1. Introduction

1.1 Background to the MfO Initiative

Over the last five years, a number of steps have been undertaken by the central agencies to support departments in developing a more results-based approach to their policy advice and service delivery operations. This assistance has included several initiatives for improving public management such as the Capability, Accountability and Performance (CAP) Pilot and the Pathfinder Project.

This latest initiative, "Managing for Outcomes" (MfO), builds on these earlier activities. It also incorporates the efforts of some departments, such as Corrections, which have been on-going for several years now, to design and implement more results-oriented policies, management systems and organisational culture.

The MfO initiative was introduced as a pilot programme in 2001/02. A total of 15 departments have taken part in this pilot, including some which participated in the earlier CAP trials. Eight of these departments have now had at least one year's experience in adopting these approaches and a further 7 departments have had two or more years in the MfO pilot. (A detailed list of these departments, including their respective years of involvement in the CAP, Pathfinder and MfO initiatives, was prepared by Treasury and is attached as Annex 1.)

The MfO initiative is now being rolled out to encompass a total of 36 departments during the 2003/04 financial year. The MfO Steering Group has determined that June 2003 is an appropriate time to review and evaluate the experience of the 15 trial departments in particular, with the aim of refining and improving MfO objectives, techniques and support for this wider roll-out.

1.2 Independent Evaluation: Scope and Terms of Reference

The review process being conducted by the Steering Group has several, integrated components:

- Focus group sessions with chief executives from 15 selected departments
- Interviews with two senior managers from these departments
- A brief written survey of all departments
- An independent evaluation of 7 selected departments

This report relates only to the findings of the independent evaluation, but will be used to enhance the range, quality and depth of the information gathered, in parallel, from the other components.

The full Terms of Reference for the Independent Evaluation are attached as Annex 2. The key elements of the TOR on which this report focuses are:

1. The extent of take-up of MfO objectives in departments this year, and how this may be reflected in evidence of results directed management in departments.
2. The usefulness of the MfO approach for CEs and senior management.
3. The success factors and benefits in the use of MfO ideas in departments, where available.
4. The roadblocks to employing results directed management in departments and a focus on outcomes in departmental management.
5. Approaches to remedying inadequacies in application of MfO objectives and results directed management in departments.”

This evaluation is intended to address both *extent* and *quality* of uptake of the MfO initiative amongst the selected departments. It is differentiated from the other components in two important respects. Firstly, it did not involve a systematic review of the full contents of departments' Statements of Intent (SOI). Instead it has focused on the outcomes framework described within them and its application - current and proposed - to management objectives and decisions.

Secondly, the independent evaluation did not assess the content or quality of technical support and guidance provided by the central agencies. However, the report does point out some areas where departments seem to have encountered problems, or require further guidance.

1.3 Methodology and Limits of the Evaluation

Our approach to the evaluation has been based on the following methods:

- Review of the guidance materials provided to departments under the MfO initiative
- Brief review of core departmental strategy and reporting documents, including sector strategies, SOIs, Output Plans and Annual Reports
- Interviews with CEs and senior management from the selected departments (most CEs opted for these to be conducted jointly)²
- Interviews with relevant vote analysts in the central agencies - specifically Treasury, SSC, and TPK³ - plus staff from the Office of the Auditor General (OAG).

² Only one CE (Treasury) was not available.

³ DPMC declined a discussion on the basis of their limited involvement in the MfO initiative.

- Attendance at one of the CE focus group discussions chaired by SSC staff.
- To a small degree, review of published papers by Corrections and MoRST staff on their recent MfO experiences and approaches.⁴

A one-page list of key issues relevant to departments' uptake of MfO approaches and tools was used as a general basis for each of these discussions (Annex 3).

Information from each of these sources contributed to the evaluation findings. We are conscious, however, that the sample size – 7 departments - is quite small and their experiences of results-directed management varied from about 5 years (in Corrections) to just 1 year (in MoT).

This variation in MfO approaches and performance has therefore required cautious interpretation. The lessons and conclusions from this analysis are challenging in several respects, but ought to be considered in conjunction with the findings from the wider review.

1.4 Structure of the Report

The structure of this report adheres generally to the key terms of reference. We have opted to report on the basis of *consolidated* findings and conclusions – rather than a department-by-department approach – but using specific examples from individual departments where applicable.

Section 2 sets out what we consider the MfO initiative involves, including especially the kind of managerial development process that it implies for departments over time. Section 3 reviews objectively the extent of uptake of MfO approaches in the survey departments⁵. Section 4 considers the progress departments have made in this respect, focusing especially on performance issues. This includes citing various successes and constraints they have experienced. Section 5 discusses a number of issues that have been raised by or during this evaluation that we believe are important for improving the design and further implementation of the MfO initiative. Section 6 outlines the major comments of the surveyed departments to the content and recommendations in an initial draft of this report.

Section 2. What Is “Managing for Outcomes”

2.1 Purpose

In order to assess the extent and quality of department's uptake of MfO approaches and tools it is necessary to:

1. Describe briefly the key objectives and core components of the MfO initiative, and

⁴ Bakker L. and C Adams, “Intervention Logic: The Department of Corrections Case Study”, in *Public Sector*, Vol. 26 No.1, March 2003, pp 19, and Joanne Tuffield, “Lessons from the SOI Journey” in *Public Sector*, Vol. 25 No. 2, June 2002, pp 9-11.

⁵ In this report, we use “MfO” to refer to concepts, objectives, techniques, etc. explicitly introduced under this central agency initiative (including CAP and Pathfinder tools). We use “managing for outcomes” (lower case only) to refer to the broader, generic, concept or objective of results-oriented management.

2. Build a picture of the process, or stages, through which departments can be expected to move as they take up these various components and apply them to their management and operational tasks.

The following sections represent the independent evaluators' interpretation of these requirements, especially the process description. We consider it might be helpful for central agencies to develop an official characterisation of the intended process, to better inform departments of where they are heading and how far they have traveled.

2.2 As Described in Official Documentation

In examining uptake of the MfO initiative, the evaluation looked especially at each department's understanding and application of the MfO programme's requirements for planning, management and reporting. The main concepts, tools and processes which the evaluation focused on, as described in the official MfO guidance documentation provided to departments, comprised:

Planning

Key components:

- Strategic planning documents – possibly relating to both the sector(s) in which the department operates and the department itself, incorporating a well-defined set of government or sector outcomes. These should be supported or combined with an effective “intervention logic” – possibly in the form of a set of more immediate objectives or similar concepts - that clearly define what the department is seeking to achieve or contribute to that broader outcome framework. The results of this improved planning process may culminate in various strategic planning documents, but the essential features of the new outcomes framework should be fully reflected in the department's SOI.
- Preparation of this longer-term, outcome-focused strategic planning framework should be seen to have involved at least two tiers of management, possibly more, within the department, plus some degree of consultation with relevant stakeholders, including the responsible minister(s).
- The quality of the department's outcome framework, and the discussions around it, should be improving with trial and experience.

Management

Key components:

- Documentary evidence of the extent to which the department has moved to “operationalise” its new strategic framework should be reflected in the form of modified business plans and/or improved output plans. The latter should reflect progress by the department in aligning existing outputs to specific outcomes, and/or in modifying outputs to achieve the “best mix” in pursuit of the stated outcomes.
- The development of performance measures against outcomes, especially priority or “vital” outcomes, should also indicate the degree to which the department is

Economics & Strategy Group

implementing a performance monitoring capability that will help to underpin managerial decision-making over time.

- Managerial engagement around outcomes may be further reflected, depending on the length of time involved, in changes to management systems, organisational structure and/or alterations to the department's longer term capability requirements.
- Consultation and collaboration with relevant stakeholders, central agencies and other government departments should be enhanced by adoption of the MfO approach. Evidence of this may be found initially in the development of mutual or related outcomes, supported by subsequent approaches that may involve shared funding, managerial or service delivery responsibilities.
- These improvements in collaboration may be evident more simply in better understanding between agencies of what others are contributing to the broader goals.
- Improvements in departmental management and performance may arise over time through better understanding by staff of departmental objectives and what each division or business unit can and should contribute to them.

Reporting

The core reporting documents cited by the MfO guidance literature involve the SOI, Estimates, Output Plans and Annual Reports. These requirements have not changed as a result of the MfO initiative per se, though their content and quality are expected to reflect improvements in planning, management and performance resulting from the adoption of MfO objectives.

Key Instructions

In defining what is expected of departments in adopting the MfO approach, we cite two key official instructions from the documentation which have helped shape departments' understanding and implementation of the initiative⁶:

Chief executives will not be held accountable for achieving outcomes, but they will be held accountable for 'managing for outcomes'. They remain accountable for delivering outputs and for altering their mix of outputs as circumstances dictate.
and:

'What' managing for outcomes involves is clear, but 'how' departments do it is over to them. There is no template, but departments have the full support of central agencies and TPK and the steering group.'

The impact and potential importance of these two instructions are discussed in Sections 4 and 5.

⁶ Source: *Managing for Outcomes: Guidance for Departments*, Prepared by the Steering Group Managing for Outcomes Roll-out 2003/04, August 2002, page 7.

2.3 An Implied Implementation Process

It is expected, and stated in the guidance documentation, that successful implementation of the MfO approach “will take time”. How much time is uncertain at this stage, but it is already apparent that there are several stages, or phases, through which departments need to move in order for the MfO initiative to provide a viable framework for public management.

In order to assess and discuss this process more effectively, the evaluation has identified in Table 1 four indicative “stages” in managing for outcomes. This representation is based on a combination of (i) actual evidence from the surveyed departments, (ii) interpretation of the development process implied in the guidance literature, and (iii) our own anticipation of some of the subsequent requirements for successfully managing for outcomes.

The aim of presenting the table in this report is simply to help identify, explain and relate the varying amounts of progress made by the surveyed departments. It is not a template. In practice, many activities within stages, and a few between stages, will be undertaken in parallel. The implementation process will vary depending on the nature of the outputs involved, the starting point, and a number of other factors. Time lags may vary considerably and a number of components or actions may not apply to some departments.

Despite these limitations, we consider that the model is useful when considering the extent of uptake of managing for outcomes. Wider benefits could be obtained by developing and refining the model. It could serve as a basis, for example, for identifying possible “sticking points” and for developing better-targeted and more appropriately timed inputs and assistance to departments.

Of the seven departments covered by this evaluation only one, Corrections, has so far moved fully beyond Stage I. Some of the challenges that this department faces in operationalising a managing for outcomes approach across Stages II to IV, including the length of time that may be involved, are discussed further in the mini case study in Section 3.4.

**Table 1: Implementing a Managing for Outcomes Approach:
An Indicative Process**

<p align="center">Stage I (0 - 1.5 years)</p>	<p align="center">Stage II (1.5 - 3 years)</p>	<p align="center">Stage III (3 - 5 years)</p>	<p align="center">Stage IV 5+ years (on-going)</p>
<p>Scan environment, establish key govt goals and priorities for the sector</p> <p>Establish high level indicators and monitoring responsibilities</p> <p>Review NZ/international evidence on causal factors</p> <p>Consult with minister & stakeholders</p> <p>Consider interventions by other departments/agencies</p> <p>Select key department-specific outcome goals</p> <p>Develop intervention logic relating departmental programmes/outputs to a hierarchy of outcomes</p> <p>Develop / refine SOI and business plans</p> <p>Consider possible outcome performance measures / indicators</p>	<p>Integrate Output Plan and strategic plans for HR, IT, Physical Assets, and research/evaluation within the new strategic framework</p> <p>Develop new policy proposal, intervention strategies, programmes, services, regulatory measures</p> <p>Identify new spending proposals to support strategic planning. Reduce low priority programmes / outputs</p> <p>Finalise performance measures and establish baseline data</p> <p>Modify information systems to capture required indicator data</p> <p>Design, test, evaluate new policy approaches and services</p> <p>Identify joint outcomes and key agency relationships around MfO structure</p> <p>Identify capability requirements and implications for the above</p>	<p>Evaluate trials, reassess overall evidence base, reconfirm / amend department outcomes & indicators</p> <p>Refocus policy advice, re-engineer service delivery and revise outputs in relevant areas</p> <p>Implement supporting capability requirements (HR, IT, etc). Deal with any residual staff resistance</p> <p>Re-organise output classes to align with improved programme/outcome structure.</p> <p>Improve content & reliability of performance measures and data, integrate into SOI and business plans</p> <p>Trial innovations in funding and service delivery (e.g. outcomes-based contracting)</p> <p>Develop proposals for shifting resources at the margin to more promising and cost effective interventions.</p>	<p>Consolidate dept's knowledge and understanding re impacts of interventions on specific outcomes, on basis of problem-solving analysis, mature delivery and contracting systems, reliable performance data, high quality evaluation and sound understanding of outcome / programme / output relationships.</p> <p>Implement appropriate changes in intervention and output mix</p> <p>Conduct intra-sectoral comparisons of relative cost-effectiveness as input to improved resourcing decisions.</p> <p>Maintain on-going process of environmental scanning, reassessment of evidence, with adjustments to policy advice, strategy delivery, and evaluation.</p>



Section 3. Extent of MfO Uptake In the Surveyed Departments

3.1 The Strategic Planning Phase

Amongst the surveyed departments, MoT is in the first year of developing an outcomes-focused planning process, DIA, MED, Treasury, and Health are all in their second year, MoRST is in its third year and Corrections, officially at least, is in its fourth year. Thus all departments have completed at least one SOI and most have completed two or more.⁷

Internal Dialogue

The strategic planning process that underpins preparation of the SOI has involved six of the seven departments in reasonably extensive internal discussions involving the chief executive and senior management. One department has so far had less opportunity to fully engage senior managers around an outcomes focus owing apparently to pressures of work.

Much of this internal discussion has occurred in the first year of preparing an SOI. Some departments noted that the second year has involved mostly “tweaking” of the outcomes framework, though all departments were significantly more satisfied with the planning framework articulated in their second SOI.

It has so far been rare for levels of staff below the second tier of management to be significantly engaged in developing the strategic planning framework. There is a tendency for discussion of the planning framework to be held quite tightly at the senior management level until chief executives have become more comfortable with their outcomes statements. In this regard, several CEs noted that the SOI process had complemented on-going efforts to achieve strategic realignment and/or managerial reforms within their departments - prompted by change of CE, new Government priorities, departmental performance overhaul, etc.

General knowledge and understanding of the strategic framework amongst line staff has increased over time in each department. However, detailed and effective understanding and involvement at the operational level appears, from the Corrections experience at least, to take 4 or more years.

External Dialogue

Experience varies considerably in the degree to which the planning process within the MfO initiative has encouraged or assisted dialogue with external agencies and stakeholders. For example, MoH and MoT (to a lesser degree) reported a useful level of consultation with sectoral agencies prompted by the formulation of their SOI. By comparison, DIA, Treasury and MED have so far experienced a more limited the degree of external engagement. MoRST expressed a particular wish for closer collaboration and leadership from relevant agencies (esp. Treasury and MED). This was needed, it argued, for developing a more shared outcome and policy framework that would provide better direction and focus for RS&T funding decisions.

A careful distinction should be made here between external dialogue in *preparing* an SOI and communication with other agencies on sectoral issues *using* the SOI as a communication tool. In the latter case, most departments have made considerably more use of the outcomes framework – i.e. “Part A” of their SOI - in explaining their role and objectives

⁷ MoT is understood to have shelved preparation of its first SOI for 2002/03 pending completion of the *New Zealand Transport Strategy* document. However, staff noted that managing for outcomes had become an established process in that sector, if not the Ministry itself, well before the MfO initiative.

Economics & Strategy Group

and in encouraging alignment of activities. MoH, MoRST and Corrections are particular examples in this regard.

Dialogue and Engagement with Ministers

Most of the surveyed departments report very limited dialogue or engagement with their ministers around the strategic planning process and preparation of SOIs. A number of obstacles were cited:

- Some ministers have limited knowledge of, aptitude for and/or interest in departmental planning activities.
- Some departments – such as DIA and MED – have multiple ministers with quite different policy agendas and operational priorities. Getting all of their ministers together and engaged on these issues at one time is seen as potentially helpful and productive, but logistically difficult. Separate consultation might only exacerbate fragmentation. (Similar arguments and obstacles were cited around the issue of one SOI covering multiple votes.)
- Some departments considered that an initial outcomes framework was best developed in-house, with scope for subsequent consideration and review by their minister(s).

Notwithstanding these general conclusions, one or two ministers – e.g. RS&T⁸ – had taken a direct interest in SOI preparation and continue to be involved in strategic discussions with the department. Overall, however, and over time, there is no consistent pattern or improving level of achievement on this issue. Two departments noted that ministerial engagement was much more effective around departmental work plans. In one sector, Transport, it was noted that one of the government coalition minor parties had taken a particular interest in sector outcomes and planning and this had introduced a different set of issues into the negotiation and consultation process.

SOI Output and Content

Each of the surveyed departments has effectively worked its way through a strategic planning process culminating in an SOI which meets the requirements, in a compliance sense, of the MfO initiative. This requirement now appears to be clearly understood and, for all but one department, effectively embedded as an annual planning process.

The broad structure of SOIs is largely standardised across these departments. The first part contains the output from the new strategic planning process (i.e. the outcomes description). The second part contains vote, output class and output and financial information largely as it has been presented in the prior Departmental Forecast Report (DFR).

Notwithstanding these structural similarities, there is considerable variation in content, especially in the articulation of the outcomes framework. Much of this variation occurs around the manner and degree to which the surveyed departments have developed an underpinning intervention logic that links departmental objectives and activities to higher

⁸ Our other example came from the CE focus group and belongs to a non-surveyed department. Another non-surveyed department had also succeeded in getting multiple ministers together around SOI issues and had apparently found it very useful. The Minister of Health's preface to the MoH SOI supports the content but implies that it is clearly the product and responsibility of the department, not the Minister.

level goals and outcomes. These issues, and their implications, are discussed in Sections 4 and 5.

The MfO guidance material and some central agencies have encouraged departments to identify a smaller set of “vital” outcomes as a mechanism for prioritising resources and interventions. However, most departments, such as MoT and MED, appear to have resisted this suggestion, arguing that implementation of the Government’s transport goals necessarily involves trade-offs and that they, as a department, should not make these trade-offs (ex ante at least).

Resistance to the vital outcomes concept is also based on departments coming up with other, arguably more effective, measures for managing for outcomes. Prior to central agencies expressing concerns about the large number (14) of essentially equal outcomes in its second SOI, MED had moved to identifying five “Strategic Priorities” that effectively provide envelopes of related outcomes. These Strategic Priorities are not exactly outcomes, or vital outcomes, but are intended by MED to provide a mechanism for linking departmental interventions and organisational development (especially capability) to the broader outcome set.

Corrections has refined its outcome structure over time to a single outcome (safer communities) supported by two “secondary outcomes” both considered vital: protecting the public and reducing re-offending. In addition, it has several annual “themes” which it aims to pursue within this framework.

DIA has identified two major outcomes to which a further 8 intermediate outcomes are linked. Similarly, the Treasury SOI identifies 6 “key outcomes” but has defined underneath each of these one or more “intermediate outcomes” to which its organisational efforts and performance specifically “contribute”.

Some work has commenced on identifying and implementing joint outcomes. DIA is working with the Department of Labour (DoL) on immigration matters and the MoH – although it does not specify shared outcomes in the SOI – gives considerable attention to the complementary roles of other departments and agencies in supporting the Government’s health sector goals.

Coverage of the SOIs is annual (2003/04 in the latest examples), with the exception of MED which takes a three-year focus (2003-06). Views and ideas around this issue are raised in Section 4.

The development of the SOI in MoT has highlighted the fact that refining an outcome framework is likely to be an on-going process. Successive governments (including coalition interests) have added new outcomes and guiding principles – e.g. sustainability - to sector planning.

On the whole, the SOIs of the surveyed departments are considered clear and accessible for the experienced reader, at least in Part A. Comments were received during the evaluation, however, that these SOIs may be rather impenetrable for a general public audience, possibly including some members of parliament. MED has reproduced the strategic content of its SOI in the form of a separate and more appealing “Strategic Directions” publication.

Other Official Strategic Planning Processes and Outputs

A significant factor in the strategic planning processes of the surveyed departments is the important contribution coming from the preparation of sector-wide strategies, compiled in advance of, or in parallel with, departmental SOIs. Major examples of this are the Growth

and Innovation Framework (GIF) for Treasury, MED and MoRST, the New Zealand Transport Strategy (NZTS) for MoT and the New Zealand Health Strategy (NZHS) for MoH. These documents have been tabled in Parliament and thus have the force of legislative direction for these departments. In some cases, they also impose specific performance monitoring and reporting responsibilities, against various targets and goals.

In most cases, these sector strategies provide an overarching outcomes framework, together with supporting performance measures, to which departmental planning, resources and activities should be focused. Some departments have seen the presence of these sector strategies as an argument for focusing the SOI process on defining closely related, but more specific, reachable, outcomes for the department. Others have tied their departmental outcome frameworks less tightly to sector documents and more to a broader (or just different) vision, or expression, of what the department is there to achieve. Overall, there appears to be significant variation, inconsistency and uncertainty in these relationships. Achieving effective integration between SOIs and sector strategies has been challenging.

3.2 Management and Organisational Change

Senior managers from the surveyed departments openly acknowledged that translating the strategic planning process and their SOI content into operational realities was now their most pressing challenge in terms of uptake of the MfO initiative.⁹ In terms of Table 1, this represents the transition to Stage II of a managing for outcomes process.

Aligning outputs to outcomes

Each of the six departments are well aware that operationalising the MfO initiative involves relating outputs to outcomes in ways that will lead to improved managerial decisions. The experience to date has been mostly very limited. As senior managers have acknowledged, this work has so far consisted primarily of attempts to “map” existing votes (where applicable) and output classes to the new outcome structure.¹⁰ A subsequent step will involve determining how specific output classes and outputs could better support the priorities reflected in the outcome framework – i.e. “alignment” leading to effective resource re-allocation. The evaluation could not detect that this second process had yet begun to occur in the six departments, including the department with three years of CAP/MfO involvement.

MED and Treasury appear to have made some progress in the addressing this next phase. Their latest SOIs contain information that identifies the contribution of existing votes and output classes to specific outcomes (intermediate or otherwise defined). Treasury has established a working group to take this process forward. DIA, MoH and MoRST indicated that they are still thinking this process through, but expect it to be a key component of their next planning process/SOI.

In view of these limited achievements, progress in uptake of the MfO initiative has not flowed through yet to substantive adjustments to departments’ Output Plans. Central agency staff described recent adjustments as “largely superficial”.

⁹ The obvious exception here is Corrections who are widely regarded as much further down this path – see Section 3.4 for details. Accordingly, the remainder of this section 3.2 and all of section 3.3 refer only to the other six departments.

¹⁰ The choice of language here is deliberate. These departments have mapped votes and output classes to mostly multiple outcomes (i.e. on a non-exclusive basis), rather than mapping, much less aligning, outputs to specific outcomes.

Aligning business plans to outcomes

Building linkages between the outcome framework and business plans is seen as an even more detailed process. MED have recently invited branch managers (deputy secretaries) to articulate what their particular field or environment might look like in five years time under each Strategic Priority (vital outcome). Their intention is to get managers to articulate what the department needs to do to achieve the conditions targeted by these Strategic Priorities, what threats exist, and how these can be translated into general business strategies that are applicable horizontally across the organisation – i.e. supported by each relevant branch.

It is widely appreciated that this process of aligning business plans will drive operational decisions more directly than the above mapping of output classes. At this early stage of the MfO initiative, it is a recognised requirement, rather than an operational reality. It is probably fair to say that even in the most advanced departments business plans have been determined *mindful* of MfO objectives, but not yet directly informed or *responsive* to them.

MfO impacts on organisational structure and capability

Given the limited progress to date on aligning outputs and business plans, it is not surprising that none of these six departments reported changes to organisational structure or capability as a result specifically of the MfO initiative. However, Treasury pointed to their designation of two policy coordination (“theme”) managers – for growth and public sector management (cost- effectiveness) – that reflected an increasing appreciation of the need for better internal leadership and coordination on key outcome-related issues. (Although neither of these themes is an outcome per se for Treasury, they are closely associated with the economic performance and public sector efficiency and effectiveness outcomes respectively.)

Other departments acknowledged that although outcomes can and possibly will affect operational and resourcing decisions over time, uncertainty was expressed as to the degree of impact that could be expected on their organisational structures. This would largely depend on potential output and capability shifts that had not yet been considered. General recognition of capability issues has, however, grown strongly within all of these departments. This has been reflected not only in improved capability statements within the SOI – e.g. Treasury, MoRST and MoH - but in some HR policies and strategies.¹¹ In MoH, for example, the MfO initiative has prompted an increased focus on the need to develop leadership capabilities within the sector institutions (DHBs etc.) and to improve relationship management skills amongst both ministry and sector institution staff.

Within DIA, the MfO initiative has led to an increased focus by managers on risk assessment and management. To some extent, this has been necessitated by earlier problems in the Department, but the strengthening process is certainly reflected in the latest SOI where identification of risk management strategies underpin each of the key departmental interventions.

Impacts on organisational culture and motivation

Several departments – especially Corrections – noted the positive impact that MfO was already having on aspects of organisational culture. In two other cases, DIA and MED, it was noted how outcome statements had enabled staff from otherwise disparate – and in some

¹¹ The HR management and recruitment professions are often enthusiastic users of management jargon – not always to good effect. Several recruitment consultants, acting on behalf of Government departments, are already citing as a key requirement for mid-level public sector positions an ability to “deliver outcomes”.

cases rather marginalised - departmental activities to understand and appreciate where they fitted into the organisation and the combined purposes to which they were working.¹² DIA senior managers considered that significantly more progress had been made in the second year in building “ownership” of outcomes within the different branches.

Conversely, a degree of cynicism was expressed by some departmental and central agency staff, especially where outcome statements were seen to be “political” in nature and running too far ahead of operational realities.

Performance measurement

This area emerged as perhaps the major current concern of all departments in terms of moving towards “Stage II” – i.e. operationalising a managing for outcomes framework.

Amongst the six departments, most have begun very preliminary work only on developing performance measures. This has amounted largely to “thinking about” the problem, but not yet assigning significant efforts or resources to it, though more work is going on behind the scenes than is yet visible in the SOIs. Two departments have established small working groups to begin addressing these issues.

In some cases, departments pointed out that collecting data and monitoring performance measures are already part of their operational responsibilities relating to international reporting and/or overarching strategies – e.g. in health, RS&T, economic growth, etc. However, none of the six departments considered that these “high level” performance measures provided an adequate framework for setting or measuring their departmental performance. Several departments identified the choice of indicators as a priority area for central agency leadership and support. MED emphasised, in particular, current shortfalls in public sector capabilities with regard to the evaluation and interpretation of performance measures and the time and resources that would be needed to address these.

For all departments, there are four common and major concerns associated with performance measures: attribution, accountability, measurability and time lags. In general, developing useful performance measures is regarded as a more difficult challenge for policy advice ministries.¹³ As Treasury staff noted, it is easier – and possibly more useful – to measure the impact of policies than of policy advice. However, the link between managing for outcomes and performance measurement is then more complex.

Benchmarking – against other institutions, domestic and foreign – might be one approach that could be effectively applied in some areas – the Debt Management Office of Treasury already does this - where there are equivalent functions or activities. DIA noted that some internal assessment of existing performance levels was now underway in order to provide a baseline for future measurement.

Overall, these departments agreed that a small number of good quality measures is the most practical goal, though it may still take several years to generate performance measurement information from them that is sufficiently robust and reliable to provide a basis for managerial

¹² It was also noted, though, that this desire “not to leave anyone out” may contribute to having too many outcomes, and/or to making outcomes too broad in order to cover some peripheral units and activities.

¹³ MoRST staff, for example, have acknowledged that even after three years the department had made very limited progress on these issues - see J. Tuffield (ibid).

decisions.¹⁴ One department described the development and improvement of performance measures as a “long term iterative process”.

3.3 Results: Policy and Service Impacts

None of the six departments is yet able to point to specific (outcome-related) results from their engagement in the MfO initiative. Accordingly, annual reporting against the departments’ SOIs does not yet include tracing shifts or impacts from MfO-related policy advice or service delivery in these cases.

3.4 A Mini Case Study: Department of Corrections¹⁵

Corrections commenced comprehensive managerial and organisational reforms about 7 years ago – i.e. well before joining the CAP and MfO initiatives. During this time, it has focused its “managing for outcomes” approach on two key, congruent, outcomes: Protecting the Public and Reduced Re-offending. A broad strategy for implementation, based around international evidence on best practice, has been developed progressively. It includes the Integrated Offender Management initiative plus a range of other measures: new offender needs and risk assessment tools, a new IT system, new interventions intended to reduce the causes of re-offending, improvements in staff capability, etc.

Corrections note that although establishing the new outcomes was a relatively straightforward task, it has been much more difficult to ensure that the outputs selected are the best available for supporting these outcomes and are delivered to a “reasonable standard”. Ensuring complementarity of efforts and activities with related agencies has also been a challenge. An important aim has been to implement these changes while minimising risks to the organisation, to the Government and, of course, to the wider public.

Identifying and placing effective performance measures in this framework has taken considerable time and effort. The Department now maintains an array of measures to determine progress towards the first outcome in particular and has put in place capabilities and information systems for collecting a range of relevant data. However, with regard to the rehabilitation outcome, the Department concedes that improvements in recidivism may often be at the margin and that with many “high risk” offenders the public safety outcome necessarily remains paramount.

Time lags in obtaining reliable performance measurement information may be a considerable constraint on managing for outcomes. For example, Correction’s key performance indicators measure recidivism at 12 and 24 months after release from prison, which in turn takes place some time after rehabilitation interventions have been delivered.¹⁶ It therefore takes up to three further years to generate even the very first performance

¹⁴ An example of this dilemma can be seen in Treasury’s principal outcome: improving overall economic performance. In the medium term (less than 10 years say) several measures of economic performance are very likely to reveal cyclic fluctuations and would therefore provide a highly unreliable indicator of the quality of the department’s advice or interventions. However, measuring a more tangible “intermediate outcome” – ministerial understanding of the economic outlook and various policy trade-offs, etc. was suggested – could be not only extremely difficult, but also almost certainly subject to political cycles and other exogenous factors.

¹⁵ An early draft of this section was referred to the CEO, Department of Corrections, for comment. Various suggestions have been included.

¹⁶ The two key outcome indicators are the Recidivism Index (RI), which is regarded as a measure of the department’s performance as a whole, and the Rehabilitation Quotient (RQ) which is a measure of the effectiveness of individual rehabilitation programmes.

information. The reliability of this initial information is further constrained by small sample sizes, and the fact that it mostly relates to an earlier period when the re-engineering of Correction's services was in its early stages.

Time lags and data limitations raise fundamental problems of interpretation in implementing the MfO approach. Does failure to achieve significant change in an indicator reveal a problem with the design of the intervention, or in its delivery? Policy design may be the problem, given the need at the start to rely on overseas practices that may not relate well to local conditions. In this case, for example, the large proportion of Maori prisoners who may respond differently to interventions that have worked, say, in Canada. Moreover, there is no comparable performance data with regard to the Department's earlier policy settings.

Corrections managers consider a further five years – i.e. a period of ten years in total - will be required to increase manager and front-line staff capability, to further develop IT systems, and to assess reliably whether staff are consistently delivering the interventions according to the required policies, procedures and standards. Only then will the Department be in a position to acquire a more solid understanding of the impact of specific interventions on specific outcomes, and to apply cost-benefit methodologies that could inform decisions on the level of investment that should be directed to various, future rehabilitation interventions. Even then, it may be that problems with high risk offenders are so deep-seated, or the circumstances in their post-release environment so compelling, that feasible interventions are not effective, or at least not cost-effective.

Long time lags create additional considerations. A large-scale change management exercise needs to be sustained across a number of ministers and governments and across different senior management teams. The impacts of policy and legislative changes, new government and ministerial initiatives, new public sector management initiatives and unforeseen developments must be accommodated without losing momentum. Change fatigue, including individual or professional resistance to the new managerial approaches, must be addressed. Until such time as a solid business case can be marshalled for additional funding, all the initiatives must be accommodated within existing baselines. Recruitment strategies to change the staff skill mix may be constrained by both funding and labour market constraints.

Ultimately, the cost-effectiveness of interventions by Corrections will need to be compared against alternative means of achieving the higher-level justice sector outcomes. This may involve comparing the cost-effectiveness of Corrections' rehabilitation services to crime prevention interventions delivered by other agencies, sentencing policies and so on.¹⁷ This will require the development of MfO to a high level in other justice sector agencies as well as new capabilities and mandates for sector-wide intervention analysis.

Notwithstanding the above, there are a number of factors that have improved the prospects for success in the application of managing for outcomes in Corrections. These include:

- the articulation of just two clear outcomes, with performance measures that can be reasonably related to the outputs delivered by the Department;¹⁸
- the fact that this initiative could be implemented without legislative, mandate, or major funding level changes;
- reasonable continuity in the senior management team;

¹⁷ For some discussion of these issues see *Intervention Logic: The Department of Corrections Case Study*, Public Sector Vol. 26, No. 1, March 2003.

¹⁸ There are, however, confounding factors that impact on the recidivism index as a measure of Corrections' performance. For instance, the economic cycle may prove to have a significant impact on recidivism, which would reduce the utility of RI as a performance measure.

- the availability of international evidence and benchmarking data to help design and guide the initiative;¹⁹
- the ability to implement controlled interventions (in rehabilitation strategies).

Summary

Managing for outcomes in Corrections has proved a formidable challenge. The suggestion that MfO may be easier to implement in service delivery agencies because of fewer attribution problems should not be overstated. Corrections' own view is that implementing a managing for outcomes approach has only been possible in conjunction with large scale and difficult organisational reform. And while they may be relatively advanced compared to many other departments in New Zealand, after five years they still have a long way to go.

Section 4: Assessing Progress: Successes and Roadblocks

4.1 Content and Quality of Outcome Frameworks

Process

Each of the surveyed departments has put commendable effort into developing the strategic framework (SOI) component of the MfO initiative. The process is widely considered to have assisted senior managers to review and discuss the core purpose(s) of their department and the way these relates to current and expected activities and resourcing. TPK commended MED especially for appointing a designated leader for Maori issues in the development of their second-year SOI.

In most cases, these efforts to develop an outcomes framework bore most fruit in the first year (the "80/20" rule as one CEO put it). Nonetheless, it has taken all the surveyed departments at least two years to reach an acceptable level of "comfort" with this part of their SOIs. One central agency staff member noted that for one department the considerable time spent around developing the "softer" Part A of the SOI had been at the expense of the "harder" information in Part B.

Some see further, annual refinement of their outcomes framework as necessary and desirable. Others hope that their current outcome framework will remain valid, essentially in its present form, for a number of years with future attention shifting forward almost wholly to the underpinning links to operational and performance measurement issues.

This question of the "durability" of the strategic framework includes considering whether the statement of outcomes should form an explicitly medium term (3-5 year) framework. In most cases, firm positions have not yet formed around this issue. However, all departments now saw a need to "consolidate" future efforts, including SOI development, around their existing outcomes framework and to push on with operationalising these strategies.

¹⁹ At the outset there was a lack of comparability in international data (for example, different definitions of recidivism). There was also no measure of the kind Corrections developed to measure the effectiveness of rehabilitation interventions (the recidivism quotient). Over time, however, the availability of internationally-comparable data, and the forum for discussion and comparison provided by an active network of international Prisons agencies, has facilitated managing for outcomes in Corrections.

Consistency

The “flexibility” objective within the MfO initiative has been welcomed by departments and interpreted literally and liberally. As a result, structure, content and terminology in the outcome frameworks are highly varied. Departmental outcomes range from high level economic and sectoral goals – e.g. MoRST and MoT especially – to quite specific, operationally-focused outcomes (e.g. Treasury: debt management). This considerable variation exists both across and within the outcome frameworks of the departments surveyed. This assessment of high variability was confirmed strongly by some central agency staff.

In some cases, it was not entirely clear to the evaluators which outcomes relate specifically to the department, as opposed to other sector agencies, nor where these intersect with higher level goals. Where a department’s specific outcomes are unclear, the task of aligning outputs and determining performance measures is also emerging as highly problematic. In some cases, a cascade of outcomes and supporting departmental interventions is clearly articulated, but there are not yet any really excellent examples of this.

Not surprisingly, most departments expressed a wish for a little more guidance and leadership, or even just good models, from central agencies in these areas. However, they do not wish to be directed in their application.

Quality

The quality of outcome statements – as frameworks for public management – also varies considerably, from basically sound to quite weak. The distinction hinges largely around the degree to which the departments have been able to develop an outcomes structure that clearly reflects what and where the department can contribute – i.e. a well-crafted intervention logic that may be implicit or explicit in the SOI. Moreover, some outcomes defined by the surveyed departments appear at this stage to lack an adequate research base and/or a rigorous, “problem-solving” focus.

It is evident that MfO guidance for setting an outcomes framework may be easier to apply in a service-delivery department – e.g. Corrections. For policy advice and purchase/funding departments – which made up the majority of this evaluation - the linkages between outcomes and effective and measurable interventions are more difficult to define. Although it requires significant further work, the approach of MoH which defines outcomes in terms of various supporting interventions that improve the capacity and coordination of sector institutions is both interesting and a possible model for others with similar mandates. The Treasury approach, which clearly differentiates between high level outcomes and the more limited impact potential of the department, is also instructive.

In assessing the overall quality of outcome frameworks from this evaluation, we are conscious of the small sample size and the “outlier” nature of Corrections due to its tightly-defined service delivery functions and its much longer experience with managing for outcomes. Nonetheless, our reservations about quality revolve primarily around the difficulties we expect that each of the departments will now face, including Corrections, in making demonstrable progress against these outcomes. This concern is increased by our assessment that many of the outcomes identified by these departments could generate unrealistic internal and external expectations of what can be achieved and/or excessive resource demands.

4.2 Usefulness of the Outcome Frameworks

The process of developing a strategic (outcomes) framework within the SOI has been viewed positively by all the departments. It has been especially useful for assisting new CEs who have been tasked with leading an internal review and reform process, including building greater coherence amongst the senior management team.

Some staff working in “peripheral” votes or operations have felt more included in the core purpose by have their contribution to the department identified against a specific outcome. Similarly, departments – and by implication ministers at some later stage – are being required to reconsider “low priority” (effectively, non-outcome focused) activities. The overall effect has therefore been to force departments to take a more critical – i.e. results-oriented - view of some traditional responsibilities and programmes.

TPK staff noted that the SOI process has facilitated an improved discussion and articulation of objectives for Maori within departmental strategic planning, though their inputs may have had less traction by being made more with “planners”, rather than with senior managers, on these issues. MoH in particular were considered to have revealed a “good conceptual understanding” of Treaty issues within their SOI.

Nonetheless, TPK’s judgement of the real efficacy of this improved dialogue are necessarily reserved until Output Plans are seen. There is considerable interest in how output combinations will be adjusted to address Maori concerns, plus consequent linkages to organisational capability and structure etc.

As communications tools, most managers also consider that their SOIs have made a valuable contribution to raising the quality of their strategic conversations and collaboration with sector agencies. In most cases, the same cannot yet be said for their communications with other departments, central agencies and ministers, but these areas are expected to improve over time. The Corrections experience supports this expectation.

Not much progress is yet evident, in this sample, on cross-agency collaboration resulting specifically from the MfO initiative. Where collaboration is increasing, it tends to be the result of overarching strategies such as GIF. However, the outcome focus has supported these efforts.²⁰ Building effective relationships across (and within) sectors was considered to be especially important for the achievement of Maori outcomes.

The picture within sectors is rather more complicated. Although sector-wide strategies such as NZHS and NZTS, supported by outcomes discussion, are important for achieving coordination and collaboration, this evaluation has identified some roadblocks in front of this process:

- Some sectors are highly fragmented, involving multiple (6 or more) responsible government agencies. Improved coordination in these areas may be more about aligning and rationalising mandates and resources than it is about establishing joint outcomes.
- The timetable for Crown Entity SOIs, apparently, is different in most cases from that of departments. Discussions around strategic directions may therefore occur at different times – i.e. times that are potentially less useful or convenient to other organisations.

²⁰ One central agency staffer raised made the point that the cross-agency collaboration objective within MfO was possibly being “over-sold” – i.e. made to seem more complex and sophisticated than it really needs to be.

- Considerable variation in the structure and description of departmental outcomes may impede identification of closely linked responsibilities. In other words, inconsistencies in the description of strategic objectives may reduce, rather than enhance, the potential for collaboration.
- Coalition government has a tendency to drive up the number of outcomes and to obscure, or generate conflicting, priorities amongst them.

Finally, MoT note that a hard-edged “Benefit/Cost” decision-making methodology (subject to judicial review where appropriate) has for a long time driven the transport sector approach to managing for outcomes. Reconciling this (legislatively-determined) methodology with a more broadly defined outcome focus – including inter- and intra-sectoral collaboration - may prove challenging.

4.3 Linkages to Outputs, Business Plans and Performance Measures

Linking the outcomes framework to outputs, business plans and performance measures is now the main MfO task facing six of these departments. Work is now underway in some cases. In others, there is growing appreciation of just how difficult and time-consuming this may be once departments move beyond the relatively simple first steps of mapping current outputs to outcomes and adopting high level sectoral or economy-wide performance measures. Two departments and one central agency noted that the MfO initiative does not provide guidance on “managing for change” – i.e. how to convert outcomes into new business activities. Similarly, TPK talked about the need to “build systems capability” in departments if they were going to be able to really deliver on their outcomes.

We share the view of one CEO who described these next, “Stage II”, activities as the “acid test” of the MfO model. To date, the linkages between the outcomes framework and outputs and business plans of departments are being considered and approached with caution. This is due not only to the newness of the outcome definitions but also to the uncertain implications that such linkages have with regard to performance measurement and accountability.

The key issue here, as cited by all the departments, including Corrections, is one of *attribution*. Only in rare circumstances could departments – especially policy advice and funding ministries - envisage having a direct influence on many of the final outcomes they have identified. They could, however, definitely see a role in influencing the behaviour and capability of other institutions within the sector – or within the general public sector in the case of Treasury and MED – that, collectively, may have some influence on outcomes. MoH and, to a slightly lesser extent, MED seem to have articulated this distinction most clearly in their SOIs.

The difficulty that most of these departments now face in progressing to the next phase is therefore two-fold:

1. the most readily available, or easily developed, performance measures tend to be at the higher sectoral- or even economy-wide outcome level; departments are willing to monitor these outcomes (and some cases they already are), but clearly no CE would expect or wish to be held accountable on that basis;

2. on the other hand, performance measures which are more meaningful to the department's specific responsibilities and operations – and which CEs could use as business drivers – are mostly very difficult to design, monitor and evaluate. How does an organisation measure, for example, whether other departments are building capability, delivering services more effectively, or acting with greater fiscal prudence, specifically as a result of the organisation's policies or interventions?

In discussion with some of the surveyed departments, the point was raised that – for this example - it may be more realistic, and quite sufficient, "just" to measure and monitor those other departments' performance and not attempt to deduce the impact of one's own organisation on them. In other words, performance would be inferred. However, this raised the question for some managers whether a department could make critical business planning and output decisions on the basis of such loosely-linked performance criteria.

The query was also raised in this regard whether this would actually be anything more, or less, than departments have been doing prior to the MfO initiative? None of the surveyed departments seemed quite sure. However, the MfO process is seen, usefully, as bringing this issue more out into the open.

This is the position most departments have now reached. There appears to be a growing expectation of central agency leadership on these issues. No department is in a hurry to commit substantial time and resources to research, much less decision-making, around highly uncertain performance measures. The Corrections experience shows that even for service delivery departments – i.e. the easier case - the choice and use of outcomes-related performance measures *as business drivers* may involve lags of up to 10 years before the quality of those choices is revealed.

Finally, several (possibly all) of the surveyed department CEs are wary that what is *not* an accountability measure today, could well become one after three or more years of systematic monitoring and personnel (including ministerial and central agency) change. This implies that some assurances that accountability remains with output delivery – if that indeed is the Government's preferred model – need to be built more robustly into the MfO framework.

Section 5: Outstanding Issues

This section picks up some of the more problematic issues identified in Section 4 and which we consider are especially important for the Steering Group to address. We consider these issues to be particularly relevant to the improvement and eventual success of the MfO initiative. However, the views expressed are those of the evaluators and are not necessarily shared by the staff of the departments and the central agencies with whom the team met.

We should also note that our views and recommendations have been shaped in part by both domestic and international experience. We are conscious that where problems occur in public management it is often because fundamental principles of management have been let slip and/or new and possibly less experienced staff have, over time, placed new and less effective interpretations on core policies and procedures.

As a result, we favour a MfO regime that, although flexible and supportive of learning and innovation, is clear and unambiguous with regard to the key functions, responsibilities and accountabilities of both ministers and departments. Although it is still early days, the

information gathered from this independent evaluation suggests that the current initiative does not quite meet this test.

5.1 Quality and Consistency vs. Flexibility and Learning

As is clear from the previous sections, the surveyed departments have exhibited considerable flexibility and learning in their uptake of the MfO concepts and tools. Scope for this, as noted in Section 2, was given explicit provision in the guidance materials. It continued the experiential (learn by doing) approach adopted under the CAP pilot.

On the whole, this has had positive results. However, to some extent, a trade-off has occurred in terms of the quality and consistency of the strategic (outcome) frameworks developed by the surveyed departments. Some of these departments, if not all, now face considerable difficulties in operationalising the MfO initiative – i.e. using their departmental outcomes as direction setting tools for improved business plans and output assignments. At the same time, departments must develop these additional components while continuing to work fully within the requirements and expectations of current legislation.

Some of the risks identified in the CAP pilot have therefore been amplified in this roll-out of the MfO initiative, both technically within departments and, numerically, across the public sector. It is our strong view that achieving quality and consistency across outcome frameworks should now be given higher priority. For some departments, we suggest this attention to quality is given prior to them taking further major steps to operationalise their strategic frameworks.

A good public management framework is one that works well for all departments, irrespective of size, function or managerial experience. The quality of a framework cannot be assessed only from the ones who do it best. Moreover, there is some evidence that departments that get off on the wrong foot may have continuing difficulties in establishing viable intervention strategies. Additional measures may be needed within the MfO current initiative to ensure that some departments don't "fall through the cracks" in this regard.

One approach the Steering Group may wish to consider is some kind of peer review or quality assurance process. Appropriately skilled public sector officials from the central agencies and other government departments could conduct this process, possibly with the support of external expertise. This QA process would help to correct obvious or perceived weaknesses in strategic frameworks, while also imbuing some degree of consistency and "best practice" across departments. We suggest that this approach could be applied in ways that are sensitive to the particular needs and challenges facing both policy advice and service delivery departments.

5.2 Meaning and Implications of "Vital Outcomes"

While acknowledging the purpose of this component in the MfO guidance, we are unsure of its value in practice. On one hand, it has had the beneficial effect of requiring departments with large numbers of outcomes – particularly as a result of multiple ministers and/or votes – to concentrate their focus and resources. It is quite possible that departments may tend over time to build up their number of outcomes as new priorities emerge, coalition special interests are accommodated (e.g. transport) and governments change. It may become much harder for departments to "drop" older outcomes as this process continues.

For this reason, identifying a few vital outcomes may therefore help departments to offset the “diluting effect” of large numbers of outcomes. It may also help them to choose the priority areas in which to build capability over time and to prioritise between outcomes (and hence activities) in the face of particular resource constraints.

Conversely, we see a real risk that at least some of the more basic functions of a department – things which are readily achievable and must be done, but which attract less kudos or publicity – may get relegated within this hierarchy. As a result, these activities may receive fewer resources, leading to lower standards of performance and accountability. At the same time, higher profile outcomes – which we have noted tend to be less amenable to the interventions of a single department, or even to government intervention more generally – may nonetheless receive increasing attention and resources.

This bias, if it occurs as we have described, may lead the department into programmes and interventions that promise more but have less tangible results.²¹ (Central agency staff too noted a potential for gaming around the resources needed to “achieve” big outcomes.) There is a further – and in our view more significant risk - that “over-promised” outcomes may simply drive poor management decisions.

Another, lesser, risk may arise where departments have multiple votes (and quite possibly multiple ministers). Should these departments be encouraged to give priority to certain outcomes, thereby relegating other votes and ministers to a lesser status?

Given these risks, and the fact that the surveyed departments at least have so far generally resisted identifying an “inner circle” of outcomes, the Steering Group may wish to modify and improve its guidance on these issues. While it seems unsatisfactory for different departments to have widely differing numbers of outcomes (not to mention outcome definitions), the vital few outcomes provision does not seem to be addressing this problem adequately. At the very least we suggest that any decision to develop a small group of priority outcomes should be based on explicit and objective criteria that prevent the kind of bias described above. Objective methods for demonstrating/measuring the scope for improved departmental effectiveness could be one example.

5.3 Managing for Outcomes vs. Accountability for Outcomes

As noted in Section 1, a clear distinction between managing for outcomes and (not) being accountable for outcomes is critical to the design, understanding and eventual success of the MfO initiative. From this evaluation, we are less sure that this distinction is as robust in practice as the guidance materials suggest. We should make it clear, however, that we have reached this view on the basis of how we *expect* departments to operationalise the managing for outcomes objective rather than on what they have done so far.

Under current legislation – specifically the Public Finance Act 1989 – departments are already “managing for outcomes” in that they are required to advise the minister on, and deliver, those outputs which most efficiently and effectively support the Government’s (minister’s) desired outcomes. The SOI process, however, has not yet involved most ministers to the degree that was hoped. It has therefore brought the outcome component of this framework significantly “closer” to departments by involving them much more explicitly in

²¹ Although outside the sample for this evaluation, NZAID’s principal outcome of “Eliminating Poverty” is a prime example. Part of the problem may involve a confusion of the concept of outcomes with an earlier emphasis in the public sector on “mission statements.”

the selection of outcomes. Outcomes cited in SOIs are now, after all, being commonly referred to as “departmental outcomes”.

This raises some important issues. Which outcomes are now “ministerial outcomes” under current legislation is much less clear in most (if not all) of the sectors covered in this analysis. If ministers did not participate, or participate much, in the selection of outcomes can they be accountable for them? Is ministerial signature on each SOI sufficient to restore this separation? Where departments have multiple votes and ministers, should it be made clear which outcomes relate to which votes and which ministers? How should these outcomes be reflected in each vote within the Estimates?

Secondly, this shift in responsibilities for determining outcomes from ministers to departments may not imply much for a shift of accountabilities if it were not for the fact that departments are now expected to align business and output plans to “their” departmental strategic (i.e. outcome) intent. This is the desired link between “Part A” and “Part B” of the SOI and the whole MfO/SOI process would be largely redundant if these linkages are not developed. Moreover, operationalising this outcome framework also now requires developing performance measures that will inform departments of the progress they are making towards these outcomes and, one expects, direct their output selection and management decisions accordingly.

It is reasonable to argue that, excepting for the act of appropriation, responsibility for the overall strategic planning process has shifted somewhat toward greater departmental control. Is it then reasonable also to maintain that accountability has not shifted, simply because the legislation says it has not? The unease we detected amongst some CEs, senior managers and central agency staff would not seem surprising. This uncertainty seems most evident where a department reports to multiple ministers, some of whom clearly identify less with the content of their department’s SOI than others.

Thirdly, the risks in this situation may be increased for departments that identify comparatively high level outcomes, with limited supporting intervention logic. As they move forward on the MfO initiative, they will have little option but to identify and monitor high level performance measures and, presumably, try to make output (i.e. managerial) decisions based on that performance information. Managers could therefore be accountable for poor management decisions that may be traced back to poor outcome selection and/or attribution problems.

This uncertainty is not hypothetical. In the OAG’s instruction²² to departments regarding the role of the Audit Office with respect to SOIs, it states that the two components of the SOI – the “long term” 3-5 year strategic “picture” and the annual statutory (i.e PFA-required) performance information and output class presentation – should be “separate” but “clearly linked”. (In effect, Parts A and B of the SOI respectively.) However, it also states that “departments may choose to present some outcome-related measures in their statements of service performance”. If they do, these measures “must be tested by the auditor and will be covered by the audit opinion”.

We have ascertained from the OAG that this instruction is perhaps not as clear as it should be. In practice, the OAG distinguishes between “scrutiny” of a department’s performance, based on all available information including anything in Part A of their SOI, and “audit” of the department. The latter is based only on information (including output and any other

²² “The Role of the Audit Office With Respect to Statements of Intent and Outcome Reporting” (draft) 2 April 2003.

performance measures) in Part B.²³ This distinction may prove a fine one. It could also influence departments in their decisions on where they locate their performance measurement reporting. We are concerned that this might drive a wedge between the basis on which departments manage and the basis on which their performance is assessed.²⁴

Finally, comments received during this evaluation seemed to indicate that the basis for performance assessment of individual CEs is undergoing a transition. Although the evaluation did not address this issue specifically, we consider that the performance assessment of CEs forms an integral part in the design of the public sector accountability framework and should be considered, and clarified if necessary, in this context.

It is our view that public management rules and expectations applying to departments should be very clear on each of the above issues, especially in the context of New Zealand's contractual model for public sector management. There should be no suggestion of possible inconsistencies being finessed in the messages that departmental managers receive from central agencies. We therefore recommend that the Steering Group look closely at reducing the potential for confusion around the "managing for outcomes vs. non-accountable for outcomes" distinction.

We understand that the opportunity for appropriate amendments to the legislation may have passed for now, so the following approaches are proposed:

1. Clarify, through appropriate administrative instructions, the respective responsibilities and accountabilities of ministers and officials with regard to the outcome framework appearing in SOIs (and in the Estimates), especially in the case of departments with multiple votes and ministers.
2. Review and revise the weaker strategic (outcome) frameworks as suggested above in section 5.1. This should lead to outcome sets in which the *effective contribution* of departments is clearly and consistently defined, with appropriate output linkages and performance measures.
3. Clarify within the MfO guidance materials both the terminology and the expectations of departments with regard to:
 - the precise basis and information on which the audit and performance assessment of departments will be conducted by the OAG, and
 - the extent, if any, to which the assessment of CEs' performance will be influenced by, or based on, the progress made by departments towards their achievement of outcomes (as opposed, for example, to the efficient selection, management and delivery of outputs).

²³ There is at least one department (outside this evaluation) that has combined Parts A and B in their SOI. It is not clear how the assessment/audit process should be conducted in these cases.

²⁴ In private sector terms, this is akin to managers of a firm aiming and managing for profits, but asking their shareholders not to judge their performance on this basis.

Section 6. Feedback from Departments

6.1 Process Followed

A draft of this report was submitted to each of the surveyed departments during July 2003 with a request for comments, especially with regard to the major recommendations. Comments were received from departments²⁵ and, where appropriate, aspects of this report were amended or expanded to reflect and/or respond to these comments. On the whole, departments supported the findings and conclusions of the evaluation, strongly on most issues.

In some cases, however, the views of departments were not fully consistent with each other and differed (mainly in emphasis) from those of the independent evaluators. This diversity of views, however, probably underscores the complexity and uncertainty inherent in implementing a major new initiative.

Comments of the departments on some of the main findings and recommendations of the report are summarised here for information purposes and to add richness to the output of the evaluation.

6.2 Quality Assurance for Outcome Frameworks

Although departments acknowledge that the outcome frameworks as defined in their SOI may vary in style and quality, most²⁶ have reservations about any kind of “mandatory” quality assurance process. Several emphasised that “flexibility” is a key attribute of MfO and they would be concerned if the review of strategic frameworks involving applying any kind of “standardised” or “directive” approach. In most cases, they would prefer to see improved guidance and more distribution of best practice examples as the best way to lift and maintain overall quality.

MED also noted that central agencies may not have any more expertise in this area than individual departments, perhaps even less in terms of applying strategic frameworks to specific sectoral environments. They suggested that central agencies might provide a “central repository” of best practice information and provide a type of “consultancy” service in support of applying best practice. Corrections suggested that the quality of central agency support for MfO implementation, including review of strategic frameworks, could be improved if they developed a stable and experienced group of individuals with particular responsibility and expertise in supporting the MfO initiative.

On the issue of who might conduct any kind of quality assurance process, MoT proposed that central agencies and “related departments (e.g. policy agencies)” might undertake systematic, but collaborative, discussions with departments. MED commented that external input to any review procedures could be beneficial in bringing an outside perspective and expertise, but that “peer review” by agencies facing similar problems would be a better approach.

Related to this issue, MED and DIA noted that it is the strategic planning process – rather than the output in the SOI – which is most important. Any quality assurance process should

²⁵ Written comments were received from MED, Treasury, Corrections, MoT, DIA and MoH within the timeframe required by the Steering Group for this final revision.

²⁶ Treasury, DIA, Transport, MED and MoH.

therefore focus on this aspect, rather than on the content or quality of the SOI. MoH noted the need to bring Crown Entities more into a managing for outcomes framework.

6.3 Multiple Votes and Vital Outcomes

Departmental responses to the report confirmed that there is some uncertainty around the issue of vital outcomes —what are they for and how should they be determined. MoT welcomed collaboration and guidance on this issue and DIA noted the difficulty in applying the “vital few” outcomes component of MfO guidance in a multi-vote department. It cited the varied nature of activities across different votes as necessitating unique outcomes and the importance of aligning votes (and hence unique outcomes) with specific business groups. DIA queried whether allowing some activities to sit outside a department’s outcome framework might be one way of resolving these needs. MoH pointed to the danger that a too narrow focus on vital outcomes might lead to an unjustified shift of resources.

MED commented on the vital outcomes issue in some length, including questioning the nature of any uncertainty and confusion around this issue. (As noted in this report) MED have developed a small number of “strategic priorities”, additional to a large number of “lower order” outcomes, as their key focus for managerial attention and resource setting. It is now developing “Action Plans” for each of these strategic priorities which, over time, may become their “vital few”. MED does not argue that their approach is necessarily the right one, but states that their decision to opt for a different approach was not a reflection of uncertainty or confusion around the guidelines for this provision within the MfO initiative.

6.4 MfO and Accountability Concerns

MED, Treasury, DIA, MoH and MoT agree with the report that clarification is required around the implications of MfO with regard to accountability issues. In general, they see these accountability issues as including their own performance measurement (against outcomes, including sector outcomes), audit reporting and CE performance assessment.

As the evaluation findings indicate, there is no strong or clear agreement on how improved clarity across these accountability issues could best be achieved. For the most part, departments see this as a matter for central agencies to resolve, though not all agree that clarification necessarily requires legislative amendments.

6.5 Other Comments

MED approve of the Evaluation Report table that defines possible stages in managing for outcomes. It suggests that this table – and MfO guidance generally – gives more emphasis to capability issues, especially with regard to performance measurement and evaluation.

MED notes that its experience so far on inter-departmental strategies supports the concept of “linked outcomes” rather than “shared outcomes” as this implies more room for individual policy perspectives and work programmes.

MED has developed a set of diagrams that aim to guide resource allocation between outcomes on the basis of benefit/cost, urgency, risk/return considerations. This model may be useful and interesting for others.

DIA notes that the some of the draft Evaluation Report conclusions with regard to addressing problems identified through mandatory processes or legislative actions as perhaps a little too “directive” and “premature”. It sees the MfO process as evolutionary and suggests that more time and experience may be needed before such steps are considered.

Corrections agrees with the Report that policy ministries may have more difficulty than service delivery ministries in applying MfO. However, it sees the gains from policy ministries making this transition as even greater in the long run, since it is policy that ultimately shapes outputs and interventions.

Corrections sees any risk of departments “gaming” around performance measures, accountability and resource bidding as “a long way down the track”. Even then, the argument for additional resources or revised output mixes etc. will still need to be proved at that time in the light of (considerably greater) evidence on performance. It queries too whether gaming around these issues, if it occurs, would be much worse than what it is now.

MoT adds a specific concern to the accountability issue by drawing attention to the need for further work on the tension that exists between the SOI as a strategic document and as an accountability document.

MoH expressed interest in receiving guidance and advice on how it should relate its work on outcomes to the “Outcomes for All” work and social reporting proposals of the Ministry for Social Development.

Annex 1

(Government Departments by Participation in MfO)

	Department	Path-finder Participants	CAP	MFO	MFO	Size of Dept. (by Vote)	Primary Function of Dept.
			Pilot Year 3ers 3	Pilot Year 2ers 4	roll-out Year 1ers 8		
2	Conservation	1	1	1		3	SD
20	Labour	1	1	1		1	P
25	MoRST		1	1		3	P/SM
14	ERO			1		2	P/SM
18	IRD	1		1		1	SD
23	MED			1		1	P
37	Youth			1		3	P
6	Culture & Heritage				1	3	SD
7	Customs	1			1	2	SD
12	Education				1	1	P
13	Environment				1	2	P
21	LINZ				1	1	SD
26	MSD				1	1	P
28	PIA				1	3	P
31	SNZ				1	2	SD
1	Archives			1		3	SD
3	Corrections	1	1	1		1	SD
4	Courts				1	1	SD
5	Crown Law				1	2	SD
8	CYF	1			1	1	SD
9	Defence				1	3	P
10	DIA			1		1	SD
11	DPMC				1	3	P
15	Fisheries				1	2	P
16	Health	1		1		1	P/SM
17	Housing				1	3	SD
19	Justice			1		2	P
22	MAF				1	1	SD
24	MFAT				1	1	P
27	National Library				1	2	SD
29	Police				1	1	SD
30	SFO				1	3	SD
32	SSC			1		2	P
33	TPK				1	2	P
34	Transport			1		2	P/SM
35	TSY			1		2	P
36	Women's Affairs		1	1		3	P
38	Parl. Env.Comm.				1	3	P
39	OAG				1	2	P/SM

Annex 2

Independent Evaluation: Terms of Reference

Description of Services:

The Contractor is to prepare an independent report on the use of Managing for Outcomes concepts, objectives and approaches in government departments, and the extent of results directed management evident in departments. This report will focus on:

- The extent of take up of MFO objectives in departments this year, and how this may be reflected in evidence of results directed management in departments.
- The usefulness of the MFO approach for chief executives and senior management.
- The success factors and benefits in the use of MFO ideas in departments, where available.
- The roadblocks to employing results directed management in departments and a focus on outcomes in departmental management.
- Approaches to remedying inadequacies in application of MFO objectives and results directed management in departments.

Seven departments will be consulted by the contractors in order to prepare this report. They include:

1. Ministry of Research Science and Technology
2. Ministry of Economic Development
3. Department of Corrections
4. Department of Internal Affairs
5. Ministry of Health
6. Ministry of Transport
7. Treasury.

In addition, the contractors will also consult with representatives from Treasury, the State Services Commission, DPMC, and the Office of the Auditor General in preparing findings.

Deliverables:

- Interviews scheduled with departments by 26 May 2003.
- Interviews completed by 24 June.
- Draft report provided to Steering Group by 4 July, 2003.
- Final Report Completed by 18 July, 2003.

Annex 3

MfO Independent Evaluation – Key Issues for Discussion

Five core issues for the independent evaluation:

1. What changes (hard issues) evident since adopting the MfO approach? What evidence?

- in official documentation: e.g. SOI, Output Plan, Annual Report, Business Plans
- in development of intervention logic: effects on policy development, org. capability
- in practice: planning processes, programme/output design, operations, cross-agency coordination, resourcing, research and evaluation
- in performance measures
- in institutional structures or systems
- in results: immediate impacts of policies and/or services

2. What changes (soft issues) evident since adopting the MfO approach? What evidence?

- in staff understanding of departmental goals and objectives
- in encouragement of internal discussion and debate on goals and objectives
- in perceptions of organisational performance
- in organisational management and efficiency
- in building new capacity/capabilities (incl. job satisfaction)
- in relationships: internal, ministerial, cross agency, client groups, other?

3. What are some key departmental “successes” (if any, to date) from MfO which others might emulate?

- in conceptual development
- in organisational culture
- in policy development/service delivery
- in results

4. What are now the major requirements (incl. obstacles to be overcome) for the department in taking the MfO approach to a higher level? Explain need.

- increased staff learning, capability
- improved specification of outcomes / documentation
- ministerial understanding/support
- organisational planning (processes and techniques),
- senior management attitudes; line staff attitudes
- operational procedures & resourcing
- measurement and reporting

5. What further support, if any, is required from external sources (e.g. central agencies, Steering Group, this evaluation, etc.)