



DEPARTMENT
of the PRIME MINISTER
and CABINET



Te Puni Kōkiri

STATE SERVICES COMMISSION
Te Kaitiaki Take Kōwhiri



THE TREASURY
Kaitiaki Take Kōwhiri

Managing for Outcomes Guidance for Departments

MANAGING FOR OUTCOMES GUIDANCE

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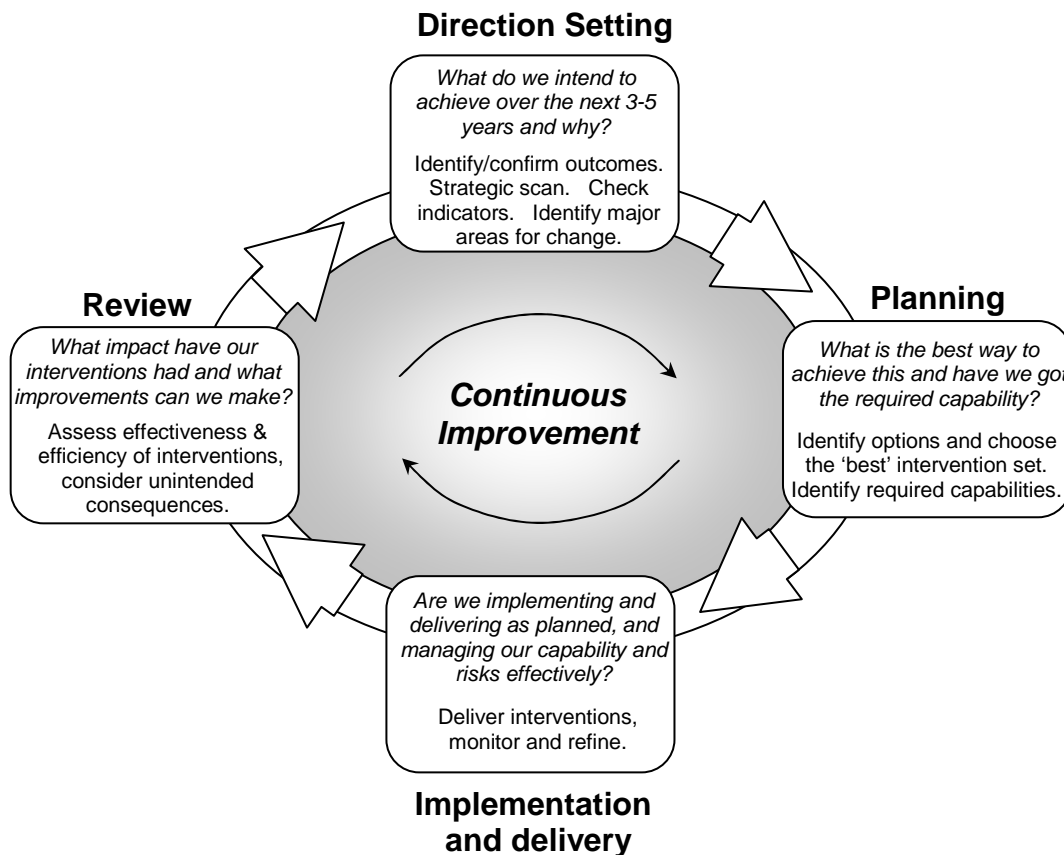
PART 1: INTRODUCTION

Purpose of this guidance

- 1 This guidance outlines the expectations of departments in adopting a more strategic and outcomes-focused approach to management and reporting. It replaces the guidance issued to departments in 2002.

What is *Managing for Outcomes*?

- 2 Governments exist to make a tangible difference to the lives of their country's citizens and residents. Consequently New Zealand, like many other countries, is placing greater emphasis on management systems that demonstrate how the activities of government agencies contribute to the results, or outcomes, that the Government is seeking for the community. This lays the foundation for considering and implementing changes to interventions¹ that better contribute to Government outcomes.
- 3 In December 2001, Cabinet introduced new planning expectations that set the scene for the *Managing for Outcomes* (MfO) initiative [CAB Min (01) 38/6A]. These expectations require all Public Service departments to adopt a more strategic and outcomes-focused approach to management and reporting.
- 4 MfO encompasses the management cycle of setting direction, planning, implementing and delivering, and reviewing the results, which then feeds back into the cycle to inform future planning, enabling a cycle of ongoing improvement. This process is represented in the following diagram:



¹ Interventions are outputs or other activity (anything done by a department to produce its outputs, such as issuing regulations) intended to achieve outcomes.

What is *Managing for Outcomes* trying to achieve?

- 5 MfO will lead to a more responsive Public Service that is better able to identify and deliver the interventions that best contribute to the outcomes Government is seeking. This may mean doing things differently, having the confidence to better align resources to the most effective and efficient outputs.
- 6 This will be achieved through:
 - better evidence to strengthen decision making;
 - better communication and improved interactions with stakeholders; and
 - greater transparency and clearer accountability to Parliament and the public.

What are departments expected to do?

- 7 The initial emphasis of MfO was mainly on planning and reporting in statements of intent and output plans. This guidance moves the emphasis to the full management cycle of setting direction, planning, implementing and delivering, and reviewing the results. This requires a greater focus on:
 - better gathering and use of evidence to determine whether the design and delivery of major interventions could be improved; and
 - better management of capability, including further development of management systems to support gathering of high priority performance information.
- 8 Departments are expected to make demonstrable progress over time in adopting the full-cycle of MfO. This means being able to:
 - understand and effectively respond to the environment that they operate in;
 - clearly communicate their purpose, the Government outcomes that they intend to contribute to over time, and the measures they will use to determine the state of these outcomes;
 - understand and explain how and through what interventions they aim to achieve these outcomes, and why this course is the best one to adopt;
 - identify, develop and manage the capabilities (people, systems, resources, structures, culture, leadership and relationships) that they need to plan for, deliver, and assess results;
 - gather information on effectiveness and efficiency to inform decisions on future direction, intervention delivery (including the mix and prioritisation), and capability;
 - anticipate and manage risks;
 - know who they need to work with and find effective ways to work with them to achieve outcomes; and
 - provide high quality formal reporting of proposed and actual performance (including progress over time if possible).

Adopting the *Managing for Outcomes* approach

- 9 Chief executives are expected to lead the changes necessary to ensure that MfO is embedded in their department's management practice and culture. Each department will approach MfO differently, as it is not a 'one size fits all' model. Central agencies acknowledge that it will take time to embed MfO, and that departments are at different stages in respect of this.
- 10 In deciding how they will embed MfO into their management practice and culture, chief executives should:
 - assess where they are now in adopting the MfO approach (Part 6 identifies a range of questions which departments may find useful to take into account when doing their self-assessment);
 - develop a programme for continuing to embed MfO into their management practices and culture, including specific goals for the next 12 months;
 - identify the specific improvements or indicators of change that they expect to see as a result; and
 - review the extent of their progress in terms of what they expected and what improvements have resulted from this.
- 11 Central agencies will also form views about where the department is now, priority areas for improvement and what progress would be realistic over what timeframe, taking into consideration each department's individual circumstances.
- 12 While departments will tailor the changes required in adopting MfO to their own circumstances, there are also standard expectations that span the whole public sector. These include, for example, e-government strategy requirements or the need to conduct business in accordance with public sector ethics, values and standards.
- 13 The MfO Steering Group recommends that central agencies and senior departmental managers meet early in the annual planning phase, and throughout the year, to discuss progress and agree how central agencies can best assist them.
- 14 Central agencies do expect to see indications of demonstrable progress in adopting the approach, and that these would be more pronounced in those departments that have been part of the initiative for some time. For example, where a department has a well-developed outcome framework, they should have a prioritised evaluation and monitoring strategy and have more evidence underpinning their intervention mix.

PART 2: ACCOUNTABILITY FOR *MANAGING FOR OUTCOMES*

Accountability to Parliament

- 15 Parliament seeks assurance from the Executive that state sector organisations are operating, and accounting for their performance, in accordance with Parliament's intentions. As part of fulfilling these accountability requirements, MfO can generate material that can be used to give a fuller account of a department's performance, particularly as expressed through statements of intent and annual reports (refer to Part 5 for information on formal reporting requirements).

- 16 Parliament also seeks independent assurance through the Auditor-General on these accountability issues. This includes providing a formal (published) audit opinion on the financial statements (including the statement of service performance) that departments are required to include in their annual reports under the Public Finance Act.
- 17 Currently, there is no requirement that information on outcomes, intervention logic, capability or risk must be included in the financial statements. However, if departments do choose to include this information in their financial statements, it will be reviewed using the standard audit criteria of relevance, completeness, reliability and capacity to be easily understood. Auditors will also look at information contained elsewhere in the annual report to ensure that it is consistent with the financial statements.
- 18 The Office of the Auditor-General (OAG) also advises Select Committees during Estimates Examinations and Financial Reviews. This includes encouraging Committees to ask about the relevance of what departments report (or do not report) and any questions arising out of what departments report (or do not report) in SOIs, annual reports and other accountability documents.
- 19 Because the Auditor-General provides an audit opinion on the financial statements and because the OAG provides advice to select committees, departments may wish to invite the OAG to comment on the contents of a draft statement of intent or annual report before it is published. The OAG is happy to provide such comment in conjunction with the appointed auditor. However, the contents of a statement of intent are often complex and may require reflection and a number of iterations before reaching their final form. If an approach for comment is left until a short time before the department must commit to publication, the OAG's capacity to respond and the department's scope for making amendments may both be limited. Experience has shown that it is far preferable that an approach be made to the Office at an early stage and that the OAG be kept informed throughout the development process.

Accountability within the Executive

- 20 The MfO initiative is directed by Cabinet and is part of the chief executives' accountability. Chief executives will be held accountable for 'managing for outcomes', which includes whether a department has:
 - assisted its Minister(s) to decide on the outcomes to pursue and their relative priorities, and measured progress towards these outcomes;
 - advised its Minister(s) on the best intervention mix to produce to pursue the desired outcomes based on evidence of effectiveness and efficiency;
 - put in place strategies to manage the major risks to achieving the desired outcomes, including undertaking evaluative activity to increase certainty about how well its interventions are actually working, collaborating with other agencies that impact on achieving the desired outcomes and adjusting strategies on the basis of evaluative findings;
 - managed its capability appropriately to ensure that it can deliver the agreed intervention mix;
 - delivered the outputs agreed by their Minister(s) to the agreed standards; and
 - made connections with other organisations that contribute to similar or related outcomes and where possible, agreed on shared outcomes and interventions.

- 21 Chief executives are not held to account for achieving or not achieving outcomes because of the inherent difficulty in determining and attributing causality for achievement and potentially long time lags between interventions and desired outcomes.
- 22 The extent to which chief executives are making progress will be considered in the context of each chief executive performance review.

PART 3: SUPPORT FOR DEPARTMENTS

- 23 A range of support is available to assist departments to manage for outcomes, including:
 - this guidance;
 - future guidance, which will outline formal reporting requirements, including statements of intent and annual reports;
 - workshops for departmental managers, beginning October 2003;
 - a range of resource material, available from the MfO website <http://www.ssc.govt.nz/display/document.asp?navid=208> that provides technical 'how-to' support, including a toolkit prepared by TPK to assist departments to integrate outcomes for Māori into MfO, and good practice examples;² and
 - individual assistance from central agency teams.
- 24 Central agency teams will:
 - develop open and collaborative relationships with departments, including establishing priorities for engagement on MfO;
 - help departments to solve substantive problems and take advantage of opportunities;
 - challenge the clarity and quality of their strategic thinking;
 - encourage departments to use their own judgment when they plan;
 - be able to suggest people with expertise in particular areas of MfO who can provide technical support if necessary; and
 - share good practice, identify links with other departments and provide advice on whole-of-government issues and interests.

PART 4: HOW DOES *MANAGING FOR OUTCOMES* FIT WITH THE BUDGET PROCESS?

- 25 The Budget is the mechanism through which the government reallocates existing resources, and provides a small amount of new resources, to achieve its desired outcomes within its fiscal policy objectives. It is the meeting point between top-down budget strategy setting by Ministers and the bottom-up development of initiatives by departments.

² Departments with suggestions of examples that could be useful to other departments, or who are seeking examples as part of their own development, are invited to contact Roger Waite Roger.Waite@treasury.govt.nz or Hugh Oliver Hugh.Oliver@ssc.govt.nz.

- 26 The Budget process involves a prioritisation exercise across all areas of spending that covers maintaining, changing, or stopping current activities, as well as new policy proposals. Due to the need to prioritise across different policy areas, the integration of the Budget with each department's MfO process assists Ministers in making well-informed decisions. It should be recognised that the Budget process is primarily a ministerial decision making process, and that the evidence gathered through MfO is only one of the influences upon Budget decision making. As primarily a departmental process, MfO provides important contextual information that assists Ministers in their wider deliberations.
- 27 It is important, therefore, that the government's statement of its priorities via the Speech from the Throne and the Budget Policy Statement informs each department's MfO thinking. This allows departments to maintain and develop policy and capability in line with Government outcomes. It also ensures that ministerial priorities are adequately fed into departmental planning processes.

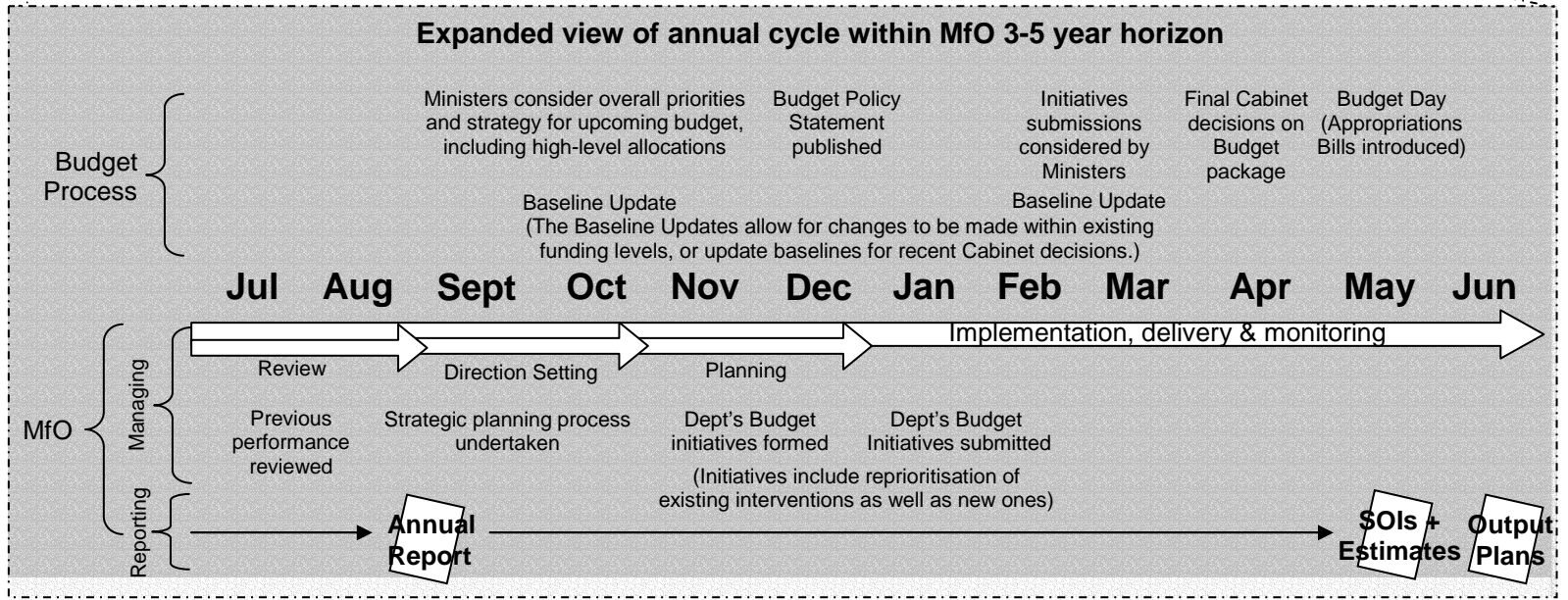
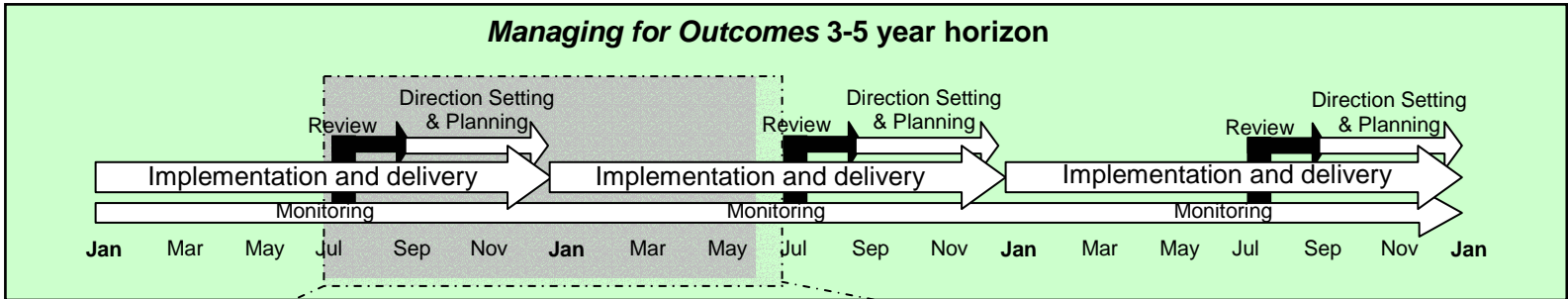
Co-ordinating MfO and Budget work at departmental level

- 28 A department that is progressing both its MfO and Budget work in a co-ordinated manner will usually:
- use the statement of intent, and the MfO thinking from the current year, as a basis for dialogue with central agencies about priorities and pressures for the next 3-5 years;
 - liaise with Treasury and SSC about specific initiatives (including reallocation of existing resources) and capability issues at least four (and preferably six) months prior to the date when Budget initiatives are to be lodged. Often these issues will be raised as part of direction setting and planning stages; and
 - signal any possible new funding bids with their Ministers well in advance of the Budget initiatives process.
- 29 Co-ordinating information in this manner allows central agencies and the departments to work together to feed into Ministers' consideration of priorities for the limited amount of new funding, from Budget to Budget. The 3-5 year outlook of MfO is also important for outlining likely issues for future Budgets.
- 30 As part of the MfO process departments should ask themselves several questions that help them to identify their priorities for the Budget process. This applies to all activities, both new and existing. These questions could include:
- What must we continue to do at an existing or enhanced level?
 - What things must we start to do?
 - What activities are we committed to but have some flexibility over levels (maintain, enhance, or reduce) over time?
 - What activities can we stop or reduce over time?
 - What new things or enhancements would be **nice** to do, but **are not** a priority?

Elements of a good Budget initiative proposal

31 Budget initiatives include reallocation of existing resources in line with priorities, and in a small number of circumstances, new money. A good Budget initiative proposal that is derived from the MfO process is one that:

- is consistent with government priorities (as articulated in the Budget Strategy), departmental Statements of Intent, and the MfO process;
- clearly demonstrates how it could contribute to achieving outcomes and improving output performance;
- outlines how the effectiveness and efficiency of the initiative will be evaluated and/or monitored; and
- if new funding is sought, the initiative should demonstrate:
 - why the costs cannot be met within baselines;
 - what cost saving/reprioritisation options (across all the Department's outputs) were considered; and
 - what potential options exist if Ministers decide against giving additional funding.



PART 5: FORMAL REPORTING REQUIREMENTS

- 32 Departments produce a range of internal and external reports at various stages of the MfO cycle. For example, some departments produce HR or IT strategies, asset management plans and a range of progress reports to stakeholders.
- 33 The MfO initiative includes some specific reporting requirements designed to improve the information that departments report about their proposed and actual performance. These requirements relate to the reports outlined in the table below. Departments should refer to separate guidance about the requirements for each of these formal reporting documents, which will be available on the MfO website once released.
- 34 Departments should note that these formal reports are simply the external expression of the outcomes-focused management processes that are being introduced through the MfO initiative. Improved reporting is only one of the aims of the MfO initiative.

Reporting proposed performance	Reporting actual performance
<p>Statements of Intent</p> <p><i>Statements of Intent</i> (SOIs) have a medium-term (three-year plus) focus and aim to improve alignment with the Government's objectives through better planning for the contribution of outputs to outcomes and for capability. SOIs replace departmental forecast reports for all departments from the 2003 Budget.</p> <p>SOIs include the annual statements required by s.34A of the Public Finance Act, which will continue to be used by departments' auditors as the basis against which departments' annual financial statements will be audited.</p> <p>Departments will be provided with updated guidance about SOIs when it is available.</p>	<p>Annual Reports</p> <p><i>Annual reports</i> report progress against the performance expectations outlined in a department's SOI.</p> <p>Annual reports must still contain auditable financial statements, including statements of service performance.</p> <p>Departments will be provided with updated guidance about <i>annual reports</i> when it is available.</p>
<p>Estimates</p> <p>The <i>Estimates</i> are published records of the authority sought for the upcoming financial year. They indicate how the appropriations will be spent, significant changes in each Vote, how performance will be managed, and differences from previous years.</p> <p>Departments will be provided with updated guidance about the <i>Estimates</i> when it is available.</p>	<p>Each Vote is allocated by the Finance and Expenditure Committee to a 'subject' select committee for examination.</p>
<p>Output Plans</p> <p><i>Output plans</i> outline expected outputs and their associated performance measures. In responding to departments' proposals, Ministers make trade-offs between quantity, quality, timeliness, location and cost of outputs and suppliers within a given budget.</p> <p>Output plans replaced purchase agreements for all departments from the 2003 Budget.</p> <p>Departments will be provided with updated guidance about output plans when it is available.</p>	<p>Departments report to Ministers against their output plans.</p> <p>Ministers may seek performance reports on a regular basis for formal feedback on outputs produced, allowing performance to be evaluated and risks to be managed.</p>

PART 6: QUESTIONS TO CONSIDER THROUGHOUT THE *MANAGING FOR OUTCOMES* CYCLE

- 35 In this part we set out key questions that departments should ask themselves as they adopt MfO.
- 36 Central agencies recognise that some departments may struggle to answer some questions, reflecting the level of experience a department has with MfO, the development stage of their management and information systems, and the relevance of the questions to the department.
- 37 Where there is difficulty in answering a question, departments should consider whether this reflects a capability gap and, if so, plan to develop this capability.

Direction Setting

What do we intend to achieve over the next 3-5 years and why?

- a. Which Government outcome areas do we have a responsibility to make a significant contribution to? Who else contributes to these, directly or indirectly?
- b. What is the current state of these areas and what factors might cause this state to change in the future? What changes do we think will happen and what changes can we influence?
 - What indicators or other information can we use to monitor this over time? How will monitoring occur?
- c. Which outcomes are priorities for us in the next 3-5 years and how does this match the views of our Ministers and stakeholders?
 - What Government strategies do we need to be consistent with?
- d. What specific contribution to these Government outcomes will our department make over the next 3-5 years?
 - How will we know what impact we've made? What measures can we use to monitor these impacts?
- e. Have we considered Treaty obligations and Māori development aspirations in our direction setting?

Planning

What is the best way of achieving this, and have we got the required capability?

- a. What interventions should we deliver to have the impacts we are seeking? Are these likely to be the most effective interventions? What is the most efficient way of delivering them?
 - How robust is the rationale for our choice of interventions?
 - What evidence of effectiveness and efficiency do we have to support this? What are the significant evidence gaps where we need to target further evaluative activity?

- Have we fully considered alternatives to our current approach?
 - Do we have the support of our Ministers and our stakeholders, including Māori?³
 - Who do we need to work with to best deliver our interventions?
- b. What risks and uncertainties will we need to manage?
- How will we check for unintended consequences from our interventions?
- c. What capabilities do we need over the next 3-5 years and how does this match our current capabilities?
- How should we manage the difference between capabilities we have and what we need?
- d. Will our monitoring systems provide us with the information we need to monitor progress, coverage and impact of interventions so that we can adapt our strategy if necessary?
- Do the rationales for our major interventions link to a clear service specification and performance monitoring approach?
 - What evidence will be gathered to demonstrate change? Have we prioritised our evaluative activity? Should we be working with other agencies to evaluate our shared policies and programmes?

Implementation and delivery

Are we implementing and delivering as planned, and managing our capability and risks effectively?

- a. Are roles, responsibilities and timescales for delivering interventions clear (for ourselves and any other agencies we are working with)?
- b. Are we monitoring our progress and risks to enable us to take corrective actions early where necessary?
- c. Are we keeping relevant internal and external stakeholders appropriately informed?
- d. Are we conducting our business in accordance with public sector ethics, values, and standards?

³ Government department chief executives have been directed by Cabinet to ensure “officials identify the key community, voluntary and tangata whenua organisations in their sphere of activity and build good practice relationships into their policy development and service planning” [Cab Min (03) 21/3E of 23 June 2003].

Review

What impact have our interventions had and what improvements can we make?

- a. Have we delivered the interventions we planned to deliver to the groups or areas we wanted to deliver them to (as specified in our rationales, Statement of Output Objectives and our output plan)?

- b. Have our interventions had the impact we expected? How can we improve the effectiveness of our interventions in future?
 - Do we need to reassess whether or not our interventions were effective for Māori?
- c. Did we deliver our interventions the best way we could? How can we improve the efficiency of our interventions in future?
- d. Do we now have the capability that we planned for? How can we improve our management of capability in future?
- e. Have our interventions had any unintended consequences? How can we manage this better in future?
- f. Overall, what has changed that will influence our direction for the next 3-5 years? How do we ensure this is adequately fed into direction setting and planning?