
PERFORMANCE IMPROVEMENT FRAMEWORK

Formal Review of Manatū Mō te Taiao Ministry for the Environment (MfE)

DECEMBER 2012

State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet

Lead Reviewers' Acknowledgement

We would like to thank Dr Paul Reynolds and the staff of MfE who all engaged with us so openly, and the many stakeholders we interviewed over the course of this Review. Thank you for giving so generously of your time and for providing constructive suggestions as to where MfE could improve its performance. We also appreciated the efforts of MfE staff who contributed to the detailed self-assessment report supplied by MfE in preparation for this Review.

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**Performance Improvement Framework
Formal Review: Ministry for the Environment**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet
Wellington, New Zealand**

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AGENCY'S RESPONSE

The Performance Improvement Framework Review has been a valuable learning experience for the Ministry for the Environment (MfE).

We are pleased about the validation it has provided on what we are doing well. There is a clear message in the Review that we have made good progress in areas where we have invested considerable effort, such as sector leadership and people capability, and still have work to do in elements such as financial and information management where we have more recently started to focus attention.

The insights gained from both the Lead reviewers and our internal discussion using the Performance Improvement Framework will provide guidance in planning the next steps. Our response to the Review will build on the work already under way to improve performance across the sector and within MfE, much of which is recognised in this Report.

We approached the self-review stage as a systematic 'stocktake' for MfE – an opportunity to examine every aspect of our business and organisation. The investigations by the Lead reviewers have challenged us to look more deeply into some aspects of how we operate and what we might do differently. We are ready to do that.

We thank the Lead reviewers and also our central and local government colleagues, stakeholders, management team and staff for the contribution they have made to the findings. Our commitment is to use their input to become better and different.

Desired future state

We welcome the excellent description of a 'desired future state: four-year excellence horizon', which sets out clearly and simply the path that we will need to follow towards 'exceptional performance'.

As the Review acknowledges, MfE is dealing with some of the most complex, cross-cutting, medium-term issues for New Zealand. Often there is little consensus on what change is needed and a range of perspectives based on different values. We accept that we must step up in order to provide the innovative leadership that will produce effective environmental stewardship for New Zealand.

While we are not under any illusions about the size and scale of the challenge that has been presented to us, especially within a four-year horizon, we will approach it with energy and a willingness to drive further change in MfE.

Indeed, the substantive improvement in our capability and performance over the past four years will provide the foundation for further development.

Our agency response is focused, in particular, on how we will move towards the desired future state. This will require a more intensive focus on:

- strengthening our environmental stewardship role and strategy
- enhancing our capability and culture, to increase thought leadership, challenge and debate
- expanding the evidence base, especially monitoring and evaluation
- improving the effectiveness of our interventions and organisational efficiency
- tracking our progress towards the desired future state.

This will be a priority for the Environment Leadership Team (ELT) and the wider management team. We recognise that significant change is called for and that we will need to focus on this over a number of years.

Strengthening our environmental stewardship role and strategy

The Lead reviewers recommend that we develop a multi-disciplinary analytical framework for environmental management to ensure assumptions, analysis, priorities and trade-offs are explicit and a long-term vision, strategy and analytical framework for natural resources management.

These will be given very high priority by the ELT and the Natural Resources Sector (NRS) over the next year as it is central to further planning and prioritisation. We expect this strategic work to be completed by mid 2013.

I have just appointed a new Deputy Secretary Sector Strategy to support me in strategic and sector leadership. The recommended work on vision, strategy and analytical framework will be his most significant first task, drawing on the knowledge within MfE and the wider environmental management system.

Once this strategic work has been completed, we will review our outcomes framework, especially the impacts, to ensure alignment and strengthen the measures we use to track progress. We recognise the need for these to be adaptive and responsive as circumstances change. This stage will be completed by late 2013 so that it can influence planning for the 2014/15 financial year and beyond.

We will then use all of these strategic documents to inform our future business planning, including: impact strategies; the four-year, workforce and annual planning; and priorities for monitoring and evaluation.

We will ensure that we maintain core capacity across all areas of our responsibilities as outlined in these documents so that it can be scaled up as needed.

We envisage that the combination of the 'desired future state' articulated in this Report and the recommended strategic documents will bring a clarity of purpose that empowers our staff and improves understanding with our stakeholders.

Enhancing capability and culture, thought leadership, challenge and debate

MfE acknowledges the need to improve our capacity for thought leadership and innovation and our level of comfort with robust debate and challenge. These are key elements of our current People Capability and Culture Strategy.

The Review has given us a clear message that we need to move faster and to be more open in how we find the people and ideas that we need. We accept the need to do that with some urgency in order to lead improvements on key environmental issues, especially the current work on freshwater and resource management reforms.

We have already begun a recruitment process for more principal analysts who are conceptual and strategic thinkers. They will be expected to work wherever there is need for thought leadership and collaborate to challenge our thinking on policy issues. A number of principal analysts will be appointed as quickly as a robust recruitment process will allow, with the aim of having them on board in early 2013.

Alongside this we plan a number of initiatives to draw in fresh ideas and a more systematic approach to questioning and challenge. This will include, for example:

- implementing a policy forum that will ensure big policy ideas are rigorously tested in-house and by sector colleagues for innovation, impact and evidence
- encouraging more active sharing of thought leaders across the NRS and wider environmental management system
- introducing innovative and different perspectives in key areas of work through short-term initiatives such as alliances with national think tanks, sabbaticals and emeritus positions
- using the performance expectations framework and other mechanisms to foster and encourage questioning, challenge, debate and constructive feedback
- continuing our efforts under the People Capability and Culture Strategy to ensure we have the capability we need and drive for performance excellence.

By March 2013 we will have a plan for enhancing capability and culture with fresh ideas and greater questioning and challenge. Some key initiatives will be in place by the end of 2013.

Expanding the evidence base, especially monitoring and evaluation

A stronger evidence base to support public communication, government decision-making and oversight of implementation is a key success factor running through many aspects of the Review. This requires more systematic collection of robust information, more effective monitoring, review and evaluation and a commitment to using evidence to underpin future advice.

Our recently updated Information Strategy spells out our approach to producing credible evidence, helping users to understand and apply it, making information available in a format that facilitates re-use and strengthens monitoring and evaluation practice. We will give priority to progressing the four workstreams in this strategy over the next three years to provide a sound evidence base for MfE and the NRS.

The development of a long-term vision, strategy and analytical framework will enable us to direct our resources towards producing the highest priority information. Information needs in MfE and the NRS will be given further consideration once the strategic work is completed, as outlined above.

As part of planning for the freshwater and resource management reforms, we are developing plans for monitoring and review. We expect that these plans will be confirmed by the time implementation work begins, following enactment of the reform Bills.

In addition, the Directors leading development of medium-term strategies to achieve the impacts are expected to consider what evidence is needed to track progress and inform adaptation if required. This is being considered as part of current high-level planning for 2013/14 and will be reviewed annually.

The Review also signals the need for a culture that concentrates more on outcomes rather than process. We will encourage this by sharing monitoring and review information more actively within MfE, including through reporting to ELT and discussion with staff, so that there is greater whole-of-Ministry ownership of the results being achieved.

Improving the effectiveness of our interventions and organisational efficiency

Stronger collaboration across the wider environmental management system is one of the keys to improving effectiveness of our interventions. The implementing agencies for our policy are generally the Environmental Protection Authority or local government.

The Review provides good advice about collaboration at the planning stage, national guidance, oversight of implementation and effective monitoring that we will endeavour to follow in our current and future policy interventions.

A key focus for the new Deputy Secretary Sector Strategy will be linking up the NRS, the Chief Executives Environment Forum with regional councils and the wider environmental management system to seek greater alignment across common interests and goals.

While this work will be ongoing, key elements of it will include development of the long-term vision, strategy and analytical framework for natural resources in the first half of 2013 and the freshwater and resource management reform programmes as they move towards decision-making and implementation.

The Review signals that we need to improve our financial and resource management maturity. We have made a start through a multi-year project to improve planning and financial management and the Information Systems Strategic Plan.

In particular, better management information about the key cost drivers in our business and a fit-for-purpose time-recording system will underpin the quarterly operating reviews. Our intention is to have this system in place by the start of the 2013/14 financial year, following testing in early 2013.

Tighter accountability for budget forecasting and management, put in place for this financial year, will also assist in improving efficiency of resource use.

In addition, we will actively use benchmark information from BASS, Finance QuickStart and policy benchmarking to improve efficiency and will seek appropriate indicators and benchmarks for operational areas, such as funds management.

We are currently exploring all-of-government solutions for information technology that will enable MfE to gain economies of scale and leverage the expertise of others. This provides an opportunity to think about what we need in terms of technology and services, and the support and systems that would help us to work more productively. We plan to be ready to implement an all-of-government solution by the end of 2013.

Tracking progress towards the desired future state

To ensure we are making progress towards the desired future state, the ELT will:

- regularly engage with the wider leadership team in MfE on implementation of the initiatives and changes needed
- review progress on these initiatives as a core part of quarterly operating reviews by both the ELT and Directors Forum
- ensure more systematic oversight of policy priorities, major operational activities and risk management through regular indepth discussions with programme leaders

- incorporate questions in staff engagement and stakeholder surveys to measure progress in strengthening our focus on thought leadership, high performance, challenge and debate
- in 12 and 18 months, schedule a Follow Up review to provide an independent perspective on progress and identify any changes needed to keep us on track.

Paul Reynolds

Chief Executive, Ministry for the Environment

LEAD REVIEWERS' VIEW

In undertaking this Review the Lead reviewers considered: “What is the contribution that New Zealand needs from the Ministry for the Environment (MfE) and, therefore, what is the performance challenge?”

The Lead reviewers noted this would be a high hurdle for MfE because it is responsible for some of the most complex, cross-cutting, medium-term issues facing New Zealand. While MfE has substantially improved its performance over the past few years, it will need to be quite exceptional going forward to make the contribution New Zealand needs from it.

Recent Context

Over the last three years, MfE has substantially improved its capability and performance, notably by:

- refocusing the work of MfE on the interface of the environment and economy and sustaining New Zealand’s natural resource base for the long-term benefit of New Zealanders
- setting a new strategic direction underpinned by five supporting strategies and a more recent focus on achieving impacts
- building the capability of the leadership team and key areas of the business, and improving people development and management
- reviewing the policy, finance, communications and administrative support functions
- leading the development of a shared mission and innovative ways of working for the Natural Resources Sector (NRS)
- setting a new standard in the Public Service for effective collaboration with external partners and stakeholders.

Three years ago MfE did not have the capability to lead significant areas of government reform. The fact that it has been asked to do so today speaks loudly of its progress. There is now an opportunity to position MfE to have the potential to lead across the full breadth of its areas of core responsibility in the future by ensuring it has a base level of competence in each portfolio that can be readily ramped up as priorities change. Focus should be on preparing for current and future challenges to deliver environmental stewardship for a prosperous New Zealand. This Review focuses on what is needed to meet that challenge.

The Performance Challenge

Sustainable economic, social and environmental development is fundamental

New Zealand’s natural resources are under increasing pressure from competing uses and in some critical areas are increasingly approaching their biophysical and usage limits. Management of our natural resources has been, and will continue to be, a complex and contentious cross-sector, multi-generational issue. MfE has a vital cross-cutting role to play in leading the NRS, whose purpose is to manage the interaction between the economy and the environment, which is central to New Zealand’s social, economic and environmental wellbeing. It is critical that any increase in economic performance from the use of natural resources is socially and environmentally sustainable and enduring.

Natural resources are a key enabler and contributor to the Government's growth agenda. For this reason MfE is responsible for an extensive set of outcomes, including to:

- improve the resource management framework to manage environmental effects and allocate resources within environmental limits
- improve quality, flow and availability of freshwater through more effective management frameworks
- decrease New Zealand's net emissions of greenhouse gases below business-as-usual levels in a cost-effective way
- reduce harm from natural, chemical and biological hazards and from waste through more effective management frameworks
- achieve better solutions to environmental problems by supporting community involvement and action and international cooperation
- improve the relationship between MfE and Māori by negotiating and implementing fair, durable and fit-for-purpose deeds of settlement and environmental accords.

These outcomes highlight two critical success factors for MfE: more effective resource management frameworks and stakeholder buy-in and collaboration.

Integrating across the environment and economy requires policy entrepreneurship

It is vital that New Zealand has a transparent and evidence-based approach to setting priorities and making tradeoffs in environment management through time. New Zealand needs a long-term strategy and analytical framework for environment management that is capable of generating a glide path that New Zealanders broadly sign up to and that can allow for varying government priorities through time. Creating and promoting an overarching long-term vision, strategy and analytical framework for MfE, developing a long-term natural resources strategy using an analytical framework for NRS and highlighting the complexity and longevity of some of the issues, are essential for sustainable development in New Zealand. It is widely acknowledged that bold and innovative thinking is required to achieve this.

MfE, as sector leader, must make development of an analytical framework for its stewardship a priority for itself and to underpin development with the NRS of a long-term strategy and analytical framework for management of natural resources. It must also bring to the table the environmental information and expertise that is central to its environmental stewardship role, so it can be properly integrated with other agencies' expertise and information.

Long-term vision, strategy and analytical framework attracts public buy-in

Anchoring current environment and economy priorities in a long-term vision and strategy, supported by a multi-disciplinary analytical framework is essential. However, it will only be successful if there is widespread public buy-in to the vision and strategy. This is an important lesson from the Land and Water Forum (LaWF) initiative, which arguably has set a new standard for government agencies on effective collaboration and stakeholder engagement. The challenge comes in understanding how lessons from the LaWF can be cost-effectively taken into a much broader arena, covering the whole of the environment management system.

The current context creates immediate opportunities

There are current opportunities for MfE to lead improvements in outcomes for New Zealand across at least five key policy priorities:

- **Fresh water**

The challenge is to improve quality, flow and availability of fresh water through more effective management systems. Through the collaborative process of LaWF a consensus has emerged on a high-level policy direction, including a limits-based approach. Further thinking is required on possible methods, tools and governance processes required for setting and managing limits on water quality and quantity. Careful regard also needs to be given to how to maintain public collaboration on implementing reforms to freshwater management post LaWF.

- **Resource management system**

The opportunity is to improve the resource management framework to manage environmental effects and allocate resources within environmental limits. There is increasing recognition that changes needed to improve the resource management system are not just confined to the Resource Management Act 1991 (RMA).

The aims of wider system reform are to realise greater sustainable economic returns from our natural resource assets, reduce costs and time delays of processing and adapt over time to changing values, pressure and technology. To achieve these outcomes may require fresh thinking on the role of central government where there are national or cross-planning boundaries; mechanisms to achieve better first instance planning decisions; and whether and how to commit central government resource to joint strategic planning with local government to address system-wide issues and opportunities.

- **Marine**

New Zealand's marine environment is vast, largely unexplored and includes a diverse range of ecosystems. There are a variety of competing uses and values for the marine environment and no overall management framework, yet it is increasingly seen as New Zealand's biggest untapped resource. There is sparse information to inform decision-making on marine and associated mineral resources. New Zealand also lacks an integrated economic, social, environmental and legal framework to minimise compliance costs and maximise sustainable use and protection of marine resources. An area of immediate and particular challenge relates to the coastal environment, where there is increasing competition for marine space for different activities. There are also environmental pressures on coastal marine ecosystems from land- and water-based activities. Finally, New Zealand has an inadequate understanding about the interface between freshwater and coastal environmental ecosystems.

- **Climate change**

The Emissions Trading Scheme (ETS) is the main mechanism in New Zealand for establishing an incentive to reduce greenhouse gas emissions and meeting international obligations. It has been set up in a manner that allows it to be fine-tuned to influence the whole economy or specific sectors and to suit a range of international frameworks.

The challenge is to decrease New Zealand's net emissions of greenhouse gases below business-as-usual levels in a cost-effective way. From an international perspective, the key priority is to develop an approach to, and mandate for, New Zealand's goal of a global agreement, as well as for assessing the benefits and costs of engagement in regional and bilateral carbon markets. At a national level,

New Zealand needs to develop a long-term pathway to a lower carbon economy (building on the momentum of the primary sector adaptation initiatives) and plan for effects of climate change on New Zealand's economy and lifestyle.

- **Hazards and waste minimisation**

The challenge is to reduce harm from natural, chemical and biological hazards and waste through more effective management frameworks. Work in this area is underdeveloped. New Zealand still needs a coherent approach to data collection, monitoring and evaluation and there is limited understanding of the impact of the Hazardous Substances and New Organisms Act 1996 (HSNO) on prosperity, innovation or the environment.

The focus initially is likely to be on chemical and natural hazards, before new organisms. Provision of information to communities, better infrastructure, understanding the marketplace for risk management institutions, and reviews of sections 6 and 7 of the Resource Management Act 1991 (RMA) are all areas for focus.

In the area of waste minimisation, the focus will be on implementation, mandatory measures for some wastes, and credible and consistent information.

There are a number of critical success factors that require significant improvement

MfE's performance challenge is to lead the NRS to deliver socially and environmentally sustainable development. To meet this challenge, MfE needs to focus on the following most critical areas for improvement:

- a developing a multi-disciplinary analytical framework for environment management to ensure assumptions, analysis, priorities and tradeoffs are explicit. This will require a wide range of capability across areas such as the Treaty of Waitangi, fiscal, economic and social impacts, ecosystems, micro-, regulatory and resource economics
- b developing and promoting a long-term vision, strategy and analytical framework for natural resources management that integrates the economy and environment
- c aligning MfE's and NRS' Four-year Business Planning to the long-term strategy and to annual business planning and budgeting.
- d supporting a culture within the NRS and MfE that fosters thought leadership and policy entrepreneurship
- e re-visiting the role of core government agency leadership in system-wide, cross- boundary issues, programme delivery, effective monitoring and collaboration
- f accelerating evaluation across the environment management priority areas to ensure there is an adequate evidential base to drive policy and programme improvements
- g developing financial and asset management functions at MfE to be key enablers of business performance improvements. This is increasingly urgent as budget constraints increasingly bite and MfE operates effectively over the full span of its core responsibilities.

Desired Future State: Four-year Excellence Horizon

Environment

The environment within which MfE operates has changed significantly over the last three years. There is increasing recognition that New Zealand's natural resources are coming under pressure from competing uses and in some critical areas are approaching biophysical and usage limits. In other areas, there is recognition that our regulatory regimes are not fit for purpose, sometimes in regard to the protection of the environment and at other times in terms of supporting sustainable use of natural resources. We have gone from a focus on making marginal improvements to the policy framework, to seeing desire for more fundamental reforms, in areas such as freshwater, oceans, HSNO and resource management systems.

This will raise additional challenges for MfE, as the organisation is stretched to provide high quality, innovative policy advice across a wide agenda. It has already demonstrated that this can create a need for organisational flexibility, raising fundamental questions about the traditional policy/operations split within both MfE and the NRS. This will put a premium on MfE's ability to lead and embed large-scale change.

Given the inevitable contestability over the use of our natural resources for economic, conservation, recreational and customary purposes, stakeholder engagement and collaboration has taken on even greater significance. This trend is inevitably going to continue. MfE has certainly lifted its effectiveness in this area, though not to a consistent standard across stakeholders and not in a consistent manner within MfE. Going forward there will be need for a more sophisticated approach. The LaWF experience has provided a live example of what is possible in areas that justify high levels of public collaboration. It is vital that the NRS takes lessons from this experience, as should the rest of the Public Service.

Business strategy

MfE plays an important role in many sectors: environment, economy (eg, transport, primary industries, tourism, minerals), social, Treaty, legal, local government, etc. The success of the MfE mission – *Environmental stewardship for a prosperous New Zealand* – is intrinsically linked to the success of other sectors. The MfE strategy has recognised this co-dependence and taken its leadership of the NRS seriously, as well as its wider non-central government sector roles. Nevertheless, there is still much to do to consolidate a long-term strategy and analytical framework for environment management and to link MfE's four-year plan and annual plan and budgeting process to it. Recent focus on improving impact is an important step.

To crystallise the integration of the economy and environment components into a sustainable development agenda will require a multi-disciplinary analytical framework capable of making transparent assumptions, tradeoffs, priorities and conceptual frameworks, etc. This can be built off the environment and economy principles. MfE needs to lead this work and make it and the development of a long-term natural resources strategy a priority for the sector. The importance of thought leadership and policy entrepreneurship at this stage cannot be overemphasised. MfE and its sector partners have capability gaps in these skills that need to be addressed as a matter of priority.

As MfE develops its long-term strategy and connects its planning to the strategy, it will need to double its effort to keep stakeholders aligned. The performance challenge currently faced by MfE suggests a further step change is required in the culture, values and behaviours that support MfE's business. We had strong feedback from MfE staff that they would welcome more robust challenge

and debate, greater organisational innovation and a focus on what excellence means for the organisation in the future. There is an opportunity in future business strategy planning to draw staff further into the leadership of the future direction of MfE by using an iterative process between ELT and staff.

Operating model

MfE has largely repositioned its operating model over the last three years. It separated the policy and programmes work; built up a generic policy capability, reoriented the leadership team to focus on strategic and outward-facing strategies; set up a Directors Forum to run the day-to-day business of the organisation; improved accountability lines; established people development systems; reviewed administration support functions, etc. In addition, it invested considerable resource in its sector leadership role, which is now paying significant dividends.

Interestingly, more recently it has experimented with new operating models for the Freshwater Reform work and, as a consequence, the Resource Management System Reforms. This has seen policy, programme and delivery staff brought together from across MfE and other government agencies. This has given rise to changes to roles, structures and accountabilities. While it is too early to say whether these innovations will be durable, it is certainly encouraging to see MfE rapidly adapt its operating model in response to business need.

Improvements to the MfE operating model have largely been in generic policy areas. Looking forward, as policy reforms are implemented, MfE will need to look for improvements in its Programme Division's work, particularly value-add components. Recent focus on improving impact may assist.

One of the critical risks to MfE is its inability at this time to maintain a credible base-level competency across its full scope of responsibility. For example, currently it is unable to lead the developmental work on marine policy or to significantly advance work in HSNO space.

Change capability

MfE has taken a systematic and staged approach to developing its organisational capability. This necessarily took place over several years and involved a fundamental repositioning of MfE's mission, role, organisational design, accountabilities, culture, and capability. Despite this rebuild of organisational machinery, there are some critical business functions that can play a more strategic role in lifting MfE's performance. Of particular note are the financial and resource management functions, which still operate at the transactional rather than enabling end of the continuum. Additionally, annual and four-year business planning is underdeveloped, though steps are being taken to address this. This is complicated further by the lack of an adequate long-term strategy and analytical framework that integrates across the economy and environment.

It is timely for ELT to clearly articulate what MfE needs to look like over the medium term to meet the performance challenge it now faces. While much progress has been made, too much of the discussion at MfE is dominated by where it came from rather than where it needs to get to. While the previous changes at MfE were of necessity driven very much by ELT, MfE would now benefit from involving the wider organisation. There is a deeper resilience and confidence to be gained from allowing far more of the organisation to be involved in the leadership and direction-setting of the business.

The brief experience of seconding significant capability from other agencies, as a result of the setting up of the Water Directorate, has yielded some interesting insights into the culture, behaviours and values of MfE. Firstly, it proved the organisation can be very agile in changing its structure, accountabilities and ways of operating if there is a strong business need to do so. Secondly, it has drawn attention to the advantages that diversity of perspective, challenge and robust debate can bring and the inference that there has not been enough of this at MfE. Thirdly, it has demonstrated that the positive aspects of the MfE culture have a high degree of resilience to the introduction of outside behaviours that MfE has previously been concerned about. Overall, it raises a question as to whether it would be timely for MfE to look again at culture, especially with respect to the role of challenge and debate. Finally, there may be value in considering some explicit values, including something that focuses on excellence.

What will success look like in four years?

MfE would have successfully led development of a long-term vision and strategy for environmental stewardship in New Zealand. This strategy would be underpinned by a multi-disciplinary analytical framework that provides a transparent means to set priorities, make tradeoffs, sequence policy and programme improvements and integrate economic and environmental objectives. MfE would have garnered support for this framework, with Government recognising that it provides a long-term policy glide path that accommodates current government priorities but does so with long-term impacts and objectives in mind. MfE and the NRS would be respected for thought leadership and policy entrepreneurship in using their respective analytical frameworks to underpin development of a long-term natural resources strategy.

The backdrop of better long-term strategy, analytical frameworks and public engagement would have allowed the Government to make sustainable progress, while acknowledging that full impacts will take place over the longer term, on a number of pressing issues, including: freshwater management, resource management system, marine and coastal management, HSNO and climate change.

Freshwater management

MfE would have led NRS to deliver a legislative framework that allows for the allocation of freshwater to the highest economic use that is socially and environmentally sustainable.

Resource management system

MfE would have delivered a new resource management framework that facilitates economic growth that is environmentally sustainable, with lower compliance costs and appropriate planning timeframes, for which MfE would have provided leadership and guidance to the implementing authorities. MfE would be monitoring implementation to ensure that the changes made a real contribution to facilitating economic growth that is socially and environmentally sustainable.

Marine and coastal management

Led by MfE, NRS would have developed, as an urgent priority, a marine strategy that would be delivering economic growth from this resource in an environmentally sustainable manner. MfE would have led the NRS to deliver a long-term vision and strategy for the marine environment and a legislative framework that allows the allocation of marine resources to the highest economic use that is socially and environmentally sustainable.

Together with reforms to the RMA, that MfE would have led, the marine strategy would have the potential to facilitate the timely development of new industry sectors, such as oil and gas and mineral exploration, making a significant contribution to New Zealand's economic growth targets in an environmentally sustainable manner.

Climate change

MfE would have provided national leadership in preparing New Zealand for the medium- and longer-term planning consequences of climate change on our economy and lifestyle. MfE would have provided effective leadership to the public sector, including local government, on transitioning to a low-carbon economy. New Zealand would have continued meeting its international climate change obligations.

HSNO and waste minimisation

MfE would have provided a low cost and simplified compliance environment for businesses to manage waste and hazards, including a system that acknowledges appropriate levels of self-compliance.

MfE would be respected for providing a credible platform for sustainable development in New Zealand. Critical to its success will have been:

- an overarching long-term vision, strategy and multi-disciplinary analytical framework for environment management that could handle the complexity and longevity of issues, and allow for transparency of assumptions, data, analysis, key tradeoffs and priorities.
- a long-term strategy and analytical framework for the natural resources system that could integrate the economy and environment. MfE, as sector leader, would have made this a priority using its newly established role of Deputy Secretary, Sector Strategy to prioritise and lead this work. MfE would have ensured it had alignment across the sector, with Government and the wider public through timely and effective information, analysis and collaboration. This would have built from the environment and economy principles developed earlier by the NRS. The sector would have ensured it had the expertise and information it needed to develop and utilise its analytical framework
- ready access to capability across core competencies, such as environmental management, the Treaty of Waitangi, economic and social impacts, ecosystems, micro-, regulatory and resource economics and practical business experience
- a culture that values and fosters thought leadership and policy entrepreneurship at the sector level and within MfE. MfE would be seen as bold and innovative, fast to move from strategy to outcomes, proactive and strategic. Importantly, it would be seen as the country's experts on the environment and natural resource management systems. To do this, MfE would have filled its senior analyst and principal analyst roles and would be leading the thinking around major policy projects, across all of its areas of core accountability. Debates within MfE and with the sector and stakeholders would have been robust, challenging and open
- the leadership role played by MfE in ensuring: consistent, comprehensive and reliable information collected at a local level to allow effective monitoring of all players; national guidance on system-wide and cross-boundary issues; effective collaboration between local government and central government at the planning stages; and Programme Division oversight of the implementation of major reforms

- effective monitoring and evaluation regimes for all critical environment management reforms over the last four years. This would have been providing a strong evidential base to underpin future advice and policy and programme improvements.
- financial and resource management functions within MfE that enable strong improvements in business performance. In addition to meeting compliance and transactional requirements, the recording and use of financial and resource information would have been driven by strategic need. IT and financial systems drive the MfE operating environment and allow clear lines of sight from its expenditure to its impact. This would have allowed MfE to identify choices and new ways of operating, accelerating improvements in business performance, despite increasingly tight fiscal constraints. This would have been particularly important in lifting effectiveness in the Programme Division's work as major policy initiatives move into the implementation stage.

Ultimately, MfE will know it has made a difference to the long-term wellbeing of New Zealanders because it will have been successful in providing environmental stewardship, while supporting New Zealand to sustainably grow, utilising its natural resources. This success would be mirrored by the success in achieving other components of the Government's growth agenda, including meeting targets to substantially grow New Zealand's exports and improve standards of living.

Anita Mazzoleni
Lead Reviewer

Paula Rebstock
Lead Reviewer

CENTRAL AGENCIES' OVERVIEW

The Government's clear priority is to deliver better public services to New Zealanders, within the tight budget the Government is operating under. Government agencies are expected to review and change how they operate to focus on the most effective and efficient use of resources and to deliver better public services to New Zealanders.

The Performance Improvement Framework (PIF) is used by a small group of respected Lead reviewers to review agencies to provide insights into how well the agency is positioned for the future. Chief executives value the opportunity to engage with Lead reviewers to discuss those insights, as do we.

We, as central agency chief executives, also benefit from Lead reviewers' insights about the State sector and the opportunities that exist to improve its operation.

Finally, Ministers, the public and agency stakeholders are entitled to information about agency and sector performance and to know what is being done to lift that performance.

MfE plays a critical role, through its leadership of the Natural Resources Sector (NRS), in managing the interface between economy and environmental management and in ensuring New Zealand can gain maximum advantage from its natural resources in a manner that is both socially and environmentally sustainable. This PIF Review recognises the substantial improvement in MfE's capability and performance over the past three years and its increasing ability to lead significant areas of government reform.

The Review identifies the changing environment to which MfE needs to respond, and the challenge of managing increasing pressure on natural resources from competing uses, and the complex, cross-cutting and multi-generational nature of the issues. We endorse MfE's leadership mandate for the NRS and support its endeavours to provide leadership across the wider environment management system.

There are areas in which we, as central agencies working together, need to support MfE. These include by working with other NRS agencies to collectively achieve the Government's priorities around water and resource management, and the Business Growth Agenda, by supporting MfE's organisational development programme to increase thought leadership, challenge and debate, as well as its efforts to expand and enhance information for decision-making and reporting on the state of the New Zealand environment.

We are committed to working with MfE to further lift its performance in response to the new challenges and opportunities it now faces.






Iain Rennie
State Services Commissioner










Gabriel Makhoul
Secretary to the Treasury

Andrew Kibblewhite
Chief Executive, Department of
the Prime Minister and Cabinet

SUMMARY OF RATINGS

Results






GOVERNMENT PRIORITIES	RATING
1 Improving freshwater management	
2 Improving management of the Exclusive Economic Zone	
3 Resource management	
4 Adjusting the Emissions Trading Scheme	
5 International climate change negotiations	





CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
1 Policy advice		
2 Implementation of legislation and Treaty of Waitangi commitments		
3 Environmental information and reporting		
Crown entity monitoring		
	RATING	
Regulatory Impact		




Rating System



 Strong	 Well placed	 Needing development	 Weak	 Unable to rate/not rated
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Organisational Management






LEADERSHIP, DIRECTION AND DELIVERY	RATING
Purpose, Vision and Strategy	
Leadership and Governance	
Values, Behaviour and Culture	
Structure, Roles and Responsibilities	
Review	

EXTERNAL RELATIONSHIPS	RATING
Engagement with the Minister(s)	
Sector Contribution	
Collaboration and Partnerships with Stakeholders	
Experiences of the Public	

PEOPLE DEVELOPMENT	RATING
Leadership and Workforce Development	
Management of People Performance	
Engagement with Staff	

FINANCIAL AND RESOURCE MANAGEMENT	RATING
Asset Management	
Information Management	
Improving Efficiency and Effectiveness	
Financial Management	
Risk Management	

Rating System

 Strong	 Well placed	 Needing development	 Weak	 Unable to rate/not rated
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AGENCY CONTEXT

The Ministry for the Environment (MfE) is the Government's primary advisor on the New Zealand environment and international matters that affect the environment. The Environment Act 1986 (the Act) lists functions for MfE to achieve the objectives of the Act such that in the management of natural and physical resources, full and balanced account is taken of: the intrinsic values of ecosystems; all values which are placed by individuals and groups on the quality of the environment; the principles of the Treaty of Waitangi; the sustainability of natural and physical resources; and the needs of future generations. MfE has defined its mission as 'Environmental stewardship for a prosperous New Zealand'.

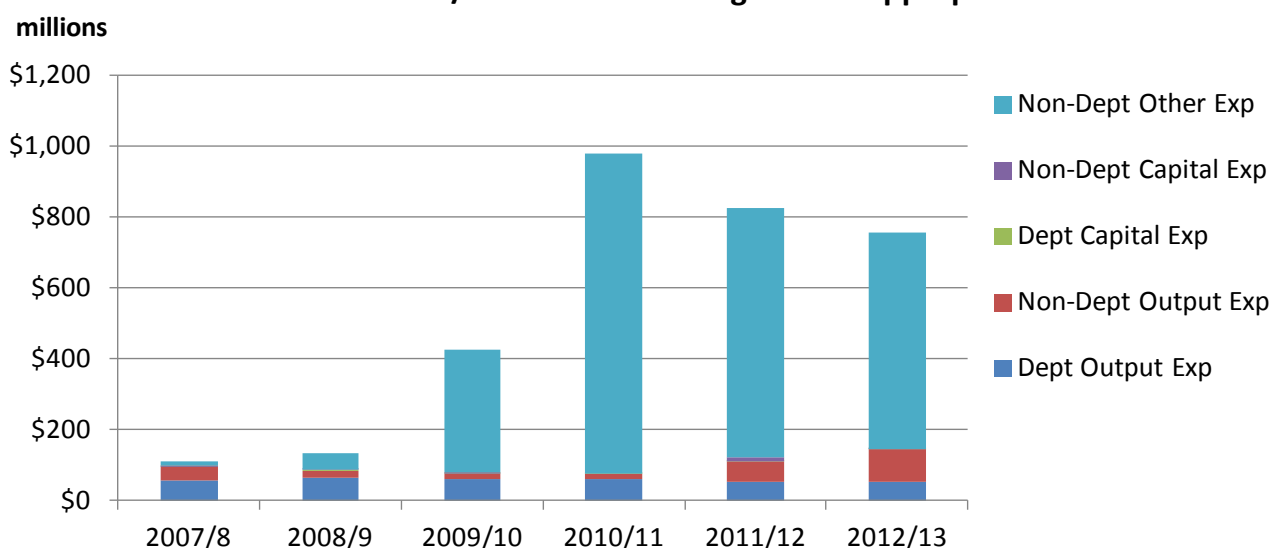
Social and productive uses of natural resources within the environment have impacts on quality and availability of those resources. Such uses need to be monitored, managed and balanced for New Zealand's current and future prosperity. In addition, New Zealand has interests and obligations that contribute to the global environment.

MfE advises on the institutions, laws, regulations, policies and economic incentives for sustainable environment management. Other agencies, especially the Environmental Protection Authority (EPA) and local government, are mainly responsible for implementing and enforcing these laws, regulations, policy and economic incentives. MfE has some operational responsibilities, including: aspects of Treaty settlements, administration of non-departmental funding, waste minimisation, as well as monitoring EPA's performance.

Since 2008 MfE has been the lead agency of some core government agencies with economic and environmental interests: the Natural Resources Sector (NRS)¹. The NRS aims to provide the Government with consistent, high quality advice on strategic issues to do with New Zealand's natural resources.

As at 30 June 2012, MfE employed 259 full-time equivalent staff, with a total appropriation of \$753.9 million. This includes approximately \$50 million pa for policy advice and \$90 million for non-departmental output expenditure (largely administration of funds for the clean up of waterways and waste minimisation). Over 70% of the appropriation is for allocating New Zealand emission units to sectors of the economy under the New Zealand Emissions Trading Scheme.

Vote Environment/Vote Climate Change - total appropriations



¹ NRS includes: MfE; Department of Conservation (DoC); Land Information New Zealand (LINZ); Ministry for Primary Industries (MPI); Ministry of Business, Innovation and Employment (MBIE); Te Puni Kōkiri (TPK).

RESULTS SECTION


Part One: Delivery of Government Priorities

Government priority 1: Improving freshwater management	
PERFORMANCE RATING 	Performance Rating: Well placed
	<p>The Government's priority of improving freshwater management reflects that: "Fresh water is vital to New Zealand's current and future prosperity, but we are reaching or exceeding limits for the amount of water that can be taken or pollution that can be safely assimilated. Improving freshwater quality and availability and ensuring best use is made of water resources is a key result area for the Natural Resources Sector". MfE's desired impact for this area is to "improve quality, flow and availability of freshwater through more effective management frameworks."</p> <p>As indicated in MfE's self-assessment, New Zealand's freshwater resources, in terms of quality and quantity, are under increasing pressure from competing uses as they approach their biophysical and allocation limit. Until recently, there was limited acceptance that freshwater management was too fragmented and change was needed.</p> <p>Under the RMA, local government has the responsibility for deciding on the allocation and use of water within its boundaries and for managing water quality. Central government's role is to provide national direction and set the framework within which local government decisions are made. Reforming New Zealand's freshwater management is part of the wider reforms of the resource management system. The objective for freshwater management is long-term improvements to water quality, greater availability of water, better economic returns, more robust governance and decision-making arrangements, better recognition and delivery of community and Māori values.</p> <p>In June 2009 Government initiated a work programme to improve the management of fresh water jointly led by the Minister for the Environment and the Minister for Primary Industries, including:</p> <ul style="list-style-type: none"> • a stakeholder-led collaborative process run by the Land and Water Forum (LaWF) to provide options for reform • ongoing discussions between senior Ministers and the Iwi Leaders Group • a core officials' work programme to scope policy options on key matters including national direction, allocation regimes, underpinning science and information needs and infrastructure. <p style="text-align: right;">Contd...</p>

	<p>LaWF delivered its first report, <i>Fresh Start for Freshwater</i>, in April 2011. Subsequently, Cabinet initiated the 'Fresh Start for Fresh Water' programme for designing and implementing an improved freshwater management regime, which was to involve three tranches of work:</p> <ul style="list-style-type: none"> • Tranche 1: progressing a limits-based regime: a National Policy Statement (NPS) for Freshwater Management, establishing the Fresh Start for Fresh Water Clean-up Fund and the Irrigation Acceleration Fund. • Tranche 2: a work programme on setting limits on water quality and quantity, including governance arrangements, aimed at delivering policy options to Cabinet by February 2012. • Tranche 3: Work on managing limits, including more efficient allocation mechanisms and additional tools to manage the effects of land use, to be delivered by September/October 2012. <p>LaWF delivered its second report in May 2012 – <i>Setting Limits for Water Quality and Quantity, Freshwater Policy and Plan-Making through Collaboration</i>. It was scheduled to report back in September 2012 with final recommendations on managing within limits (allocation and effects of land use on water) and a National Land and Water Strategy. (This report back had not occurred when this Review was conducted in October 2012.²)</p> <p>MfE and MPI have worked with LaWF, the Iwi Leaders Group and a sub-group of regional council chief executives to advance freshwater management issues. The two agencies provided advice to the Government and delivered:</p> <ul style="list-style-type: none"> • Resource Management (Measurement and Reporting of Water Takes) Regulations 2010, which provide national direction on the consistent measuring and reporting of water taken at national, regional and catchment levels • the NPS for Freshwater Management in 2011, which requires councils under the RMA to set and manage to explicit objectives and limits for both water quality and quantity • the Fresh Start for Fresh Water Clean-up Fund. The fund provides \$15 million for major projects to address legacy water quality problems • the \$35 million Irrigation Acceleration Fund (managed by MPI). <p>Five years ago MfE would not have been able or allowed to lead a major reform such as for freshwater management. Yet recently a Water Reform Directorate was established in MfE, drawing together expertise in water from across the NRS and central agencies. Staff from MPI, DoC, TPK, Treasury and DPMC are now co-located with MfE and are working collaboratively to develop policy options for the overall water reform package.</p> <p style="text-align: right;">Contd...</p>
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² The Third Report of the Land and Water Forum (<http://www.landandwater.org.nz/includes/download.aspx?ID=124767>) was subsequently published on 15 November 2012.

	<p>While there is concern that the NPS for Freshwater Management did not adequately advise Government of the full implications and risks, other aspects of MfE's work to date are highly regarded, particularly the collaboration that has established strong relationships with iwi, and support to LaWF. The decision to set up the Water Directorate and build a cross-agency, co-located team is also seen as an innovative and potentially effective way to progress the development of policy advice for the Government, though many stakeholders thought the step should have been taken much earlier.</p> <p>It is too soon to know whether, ultimately, this critical work area will be successful. While this government priority area was initially tracking well, issues such as the mixed ownership model for the sale of state-owned electricity generators have highlighted significant risks to the successful achievement of substantive reform in freshwater management.</p> <p>Looking forward, MfE must focus on ensuring:</p> <ul style="list-style-type: none"> • joined-up advice to make sure all options and risks are put in front of government in a timely manner. To achieve this MfE will need to ensure there are highly regarded thought leaders driving the work of the Water Directorate • senior leaders across the core agencies actively shape, spearhead and lead a reform package • careful consideration is given to future collaboration with LaWF, councils and iwi leaders. <p>To be considered 'strong' on this government priority, there needs to be a national framework for the management of freshwater, which can only be led by MfE. This must include: standardised resource management, consistent information, common systems and measurements and consistent and transparent high quality analysis of information, impacts and tradeoffs.</p>
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Government priority 2: Improving management of the Exclusive Economic Zone	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p> <p>The Government's priority of improving management of the Exclusive Economic Zone (EEZ) arises because "the marine environment is important to New Zealand's fishing, aquaculture, oil and gas, tourism, transport and telecommunication industries. However, the EEZ lacks a comprehensive environmental management regime of the kind that is standard in many other jurisdictions.... This creates uncertainty for investment in the development of resources and risk of poor environmental outcomes".</p> <p>Contd...</p>

	<p>The EEZ is the area of seabed from the edge of the territorial sea (12 nautical miles) to 200 nautical miles offshore and incorporates the continental shelf. New Zealand's EEZ is one of the largest in the world, with an ocean area 20 times its land mass. The main activities in the EEZ are predominantly fishing and shipping but there are a range of activities either not undertaken or undertaken on a small scale that are expected to increase in frequency in the coming years, the most significant being oil and gas exploration. This area is therefore one that can significantly contribute to economic growth but needs to do so in an environmentally sustainable way.</p> <p>Following the release of the Offshore Petroleum Review Report in late 2010, the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Bill was passed in August 2012.</p> <p>MfE assisted strongly in leading the Bill through the House. MfE was a knowledgeable and confident advisor to the Government. This was an area of significant vulnerability for New Zealand, as there was a clear legislative gap that has now been addressed, allowing the development of proactive management of this key resource.</p> <p>The next step for MfE is development of regulations establishing requirements for different activities in the EEZ and implementation of the regulations by the EPA. Information on the legislation's effectiveness will not be available until it is implemented and tested through the permit process. There are transitional arrangements to manage high risk offshore activities should regulations not be implemented by the next offshore drilling season. Once regulations are in place MfE will move into a monitoring, review and evaluation phase.</p> <p>To attain a 'strong' rating on this government priority MfE will need to work to tight timeframes to establish regulations and effective monitoring, review and evaluation capability. The review and evaluation capability needs to feed the development of more sophisticated management of the EEZ.</p> <p>Looking forward, development of a marine strategy by the NRS is a prerequisite and urgent priority to drive economic growth from marine resources in an environmentally sustainable manner. NRS needs to develop a strategic plan for the marine environment that goes beyond the next few years. In the near term, it is already clear that the interface between fresh and salt water systems is an area that requires attention. MfE is leading the NRS to establish information-gathering initiatives, positioning the NRS to provide advice on an increasingly contested area of natural resource for leisure, cultural, conservation and economic usage.</p>
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Government priority 3: Resource management	
PERFORMANCE RATING 	Performance Rating: <i>Needing development</i>
	<p>The Government's priority for "resource management reforms is targeted at simplification of processes, strengthening national direction, and improving environmental regulation". MfE's desired impact in this area is to "improve the resource management framework to manage environmental effects and allocate resources within environmental limits".</p>
	<p>MfE acknowledges this is an area overdue for reform as the RMA has been serially and incrementally amended since its introduction in 1990. There are many inefficiencies, overlaps and duplications in the current system as acknowledged in Treasury's review of the RMA's regulatory impact: "it is unclear whether the RMA encourages proactive planning ... and there are concerns the RMA is not as efficient as it could be, and that implementation via local government is problematic and causing uncertainty. It is unclear whether the RMA... encourages proactive planning for activities with economic benefits".</p>
	<p>The RMA is implemented by 17 regional and unitary councils and 61 territorial local authorities (TLAs) via regional and district plans. This is a significant number for a small country like New Zealand even accounting for its geographic variation. Some stakeholders consider that the fact RMA reforms are needed reflects MfE's lack of oversight, guidance and consistency in monitoring effectiveness of the RMA. This has been suggested as a contributing factor in the development of multiple and diverse RMA processes, as well as lack of data or data inconsistency on water and land quality. As identified elsewhere (refer <i>Leadership and Workforce Development</i> section) MfE will need to considerably lift its capability for economic analysis and provide consistent guidance to TLAs if economic assessments are to be performed well, as this is a current area of weakness.</p>
	<p>MfE has a significant current work programme for 40 FTEs, including staff from other agencies, to deliver an issues paper to the Minister for consultation on significant RMA reforms to drive economic development. While MfE has been thinking about these issues for some time, some external stakeholders indicated they have yet to see whether MfE can deliver bold thinking and focus on changes that will really make a difference to unclog current blockages and duplications under the RMA. In addition, TLAs, responsible for implementing these reforms, are concerned that legislative changes will be made without thinking through the practical consequences and will be expected to be implemented with little guidance.</p> <p>Some stakeholders consider there is a big gap between what MfE, regional councils and TLAs say and what they do in enforcing their own compliance with environmental standards and that there are currently inconsistent practices and enforcement of the RMA. This is one area where MfE could demonstrate leadership.</p> <p style="text-align: right;">Contd...</p>


	<p>To improve its performance MfE needs to:</p> <ul style="list-style-type: none"> • deliver bold RMA reforms that remove unnecessary compliance, facilitate environmentally sustainable economic growth and are able to be implemented properly • ensure appropriate leadership is provided to TLAs in relation to implementation standards, monitoring data quality, and economic assessment • regularly effectively monitor and evaluate the impact of reforms against the expected outcomes.
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Government priority 4: Adjusting the Emissions Trading Scheme

PERFORMANCE RATING 	Performance Rating: Strong
	<p>The Emissions Trading Scheme Act 2008 is the main tool by which New Zealand meets its international climate change obligations (refer <i>International Climate Change Negotiations</i> section). The ETS is New Zealand's primary tool to manage emissions, half of which for New Zealand are from agriculture. The ETS sets a price on carbon and creates a market to trade it; there is general agreement that the ETS is the correct and flexible instrument to do this but there are divergent stakeholder views as to how it should be used.</p> <p>The Government's priority for the ETS review in 2011 was to "provide the opportunity to adjust the scheme and ensure it is fit for purpose". The latest amendment Bill adjusts some commitments and allows New Zealand to offset liability by buying offshore credits, which are currently³ priced low, at less than \$2 a tonne.</p> <p>MfE's desired impact in this area is to "decrease New Zealand's net emissions of greenhouse gases below business as usual levels in a cost effective way" to contribute to an outcome where "New Zealand becomes a successful low carbon society that is resilient to climate change impacts on its climate, economy and lifestyle".</p> <p>MfE has performed well on this government priority. Furthermore, this is the only area where MfE's stakeholder survey recognised there are economic incentives in place to manage environmental outcomes.</p> <p>The ETS is now administered by EPA but MfE has oversight of the considerable exposures (refer <i>Asset Management</i> section) to the Crown's balance sheet from changes in the carbon price and units. This is reported monthly to The Treasury under well established protocols, although oversight within MfE is fragmented across a number of business units and without joined-up governance oversight. It is not clear how changes in carbon price and units are factored into delivering MfE's desired impact.</p> <p style="text-align: right;">Contd...</p>

³ As at 13 November 2012.



	<p>To maintain strong performance, MfE should:</p> <ul style="list-style-type: none"> • undertake sensitivity analysis of forward ETS exposures, including assessing the impacts from global economic trends, and assess what this means for delivering its desired impact and what the consequential actions are • establish joined-up governance oversight of forward ETS exposures by ELT and the Directors Forum, as well as by climate change and organisation performance directorates • ensure, given the consequences of the current low carbon price, that workforce planning takes into account more intensive work in the medium term on ETS/climate change.
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Government priority 5: International climate change negotiations	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Strong</p> <p>The objective of international climate change agreements is to limit global warming to less than or equal to 2°C. New Zealand's conditional target is to reduce emissions by 10-20% below 1990 levels by 2020 and 50% by 2050. The Government's priority for this area is to "maintain a high level of involvement in the efforts to reach a comprehensive global agreement and to ensure that our commitments are fair, affordable and provide certainty". MfE's desired impact for this area is the same as set out in the <i>Adjusting the Emissions Trading Scheme</i> section.</p> <p>This is an area where MfE has performed well and its scientific and technical expertise, including emissions modelling expertise, is held in high regard by its partner MFAT and by New Zealand's international contacts in climate change negotiations. In particular, MfE has been able to lead and shape the international climate change debate in areas where New Zealand has a particular interest, such as agriculture and forestry. MfE and New Zealand are regarded as exceeding expectations in these international fora. MfE is also considered to provide constructive assistance in guiding consensus in regional positions.</p> <p>However, the domestic perception of MfE's performance on climate change is obfuscated by some interest groups, and would be improved by clarifying New Zealand's intervention logic, as some stakeholders assert there is no correlation between a reduction in global warming and New Zealand's global commitments and the ETS. Clarifying an intervention logic will also require MfE to enhance its leadership role in modelling emissions pathways and New Zealand's mitigation potential, so that a common set of emissions projections can be published.</p> <p style="text-align: right;">Contd...</p>

	<p>To further improve performance MfE could:</p> <ul style="list-style-type: none"> • clarify New Zealand’s intervention logic for its global commitments and the ETS • further enhance climate change modelling systems to provide leadership across government agencies on New Zealand’s emissions pathways and mitigation potential modelling.
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RESULTS SECTION



Part Two: Delivery of Core Business

Core business 1: Policy advice	
<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Well placed</p> <p>Performance Rating (Efficiency): Well placed</p> <p>As indicated in MfE's self-assessment, following a policy review in 2010, MfE has substantially improved the capability of its policy function. This included:</p> <ul style="list-style-type: none"> • changing the ratio of senior and analyst positions (from almost 2:1 to 1:2) with an emphasis on senior analysts leading and coaching entry and intermediate-level policy analysts • introducing an apprenticeship model of policy analysis as a professional craft • transferring non-policy functions to regulatory policy or implementation parts of MfE • developing and rolling out a range of policy tools, such as: Professionalising Policy – a guide for developing the craft of policy analysis; COBRA policy guide; quality assessment criteria for policy advice; project management methodology; and The New Thinking Strategy. <p>Another important part of strengthening policy advice was the introduction of the NRS 'economy and environment' principles to highlight the priority that NRS agencies place on understanding the interface between the economy and the environment.</p> <p>MfE's appropriation for policy advice this year is \$50 million. Key areas of recent advice and policy work include:</p> <ul style="list-style-type: none"> • resource management reforms, including establishment of the EPA • review of the New Zealand Emissions Trading Scheme • international climate change negotiations • improving New Zealand's freshwater management • developing the Exclusive Economic Zone Bill • legislative change to support Canterbury following the devastating earthquakes • assisting with the Rena recovery effort⁴. <p style="text-align: right;">Contd...</p>



⁴ Following an oil spill from the MV Rena off the coast of Tauranga.

	<p>Policy advice quality assessments are carried out on a random sample of papers three times a year by an internal panel with an independent Chair. The criteria for the assessments are customer focus, context, problems and opportunities, analysis and argument, risks, consultation and collaboration, options, conclusions and recommendations and presentation. The results suggest some variability in quality and advice; MfE papers are not meeting the stated standard that at least 70% of policy advice papers sampled should be of a high quality (a score of 7 or above). In the year to 30 June 2012, 59% of the policy papers sampled met the quality standard, a 10% improvement over the previous year. The assessment of papers for March to June 2012 showed a further improvement, with 67% meeting the standard.</p> <p>MfE has not been able to recruit the skills it seeks to increase its policy capability as fast as expected, particularly at the principal analyst and senior analyst levels. MfE has continued its strategy of recruiting strong analytical skills rather than specialist knowledge about environmental issues, so that staff can be redeployed as required to work on different policy issues. It has also stressed the importance of behaviours and attitudes and is reluctant to employ analysts who have the right capability but not the desired behaviours even in areas of critical need and priority.</p> <p>MfE is participating in a Policy Measurement Pilot undertaken by the Treasury and plans are well advanced to roll out a time recording initiative. Time recording will give better information about input costs for activities and help improve MfE's understanding of the efficiency of this function. These steps are necessary prerequisites to further improving MfE's rating on efficiency of policy advice. Nevertheless, MfE is rated 'well placed' on efficiency of policy advice owing to the considerable steps it has taken to develop this capability; this has undoubtedly made durable efficiency gains possible.</p> <p>The policy advice capability at MfE is generally regarded as better than average, though many interviewees noted the average may not be very high. It is also important to note that better than average is not sufficient to underpin the role MfE needs to play, given the critical and complex issues on which only it can lead advice. It has built up the capacity to lead on some areas of policy reform, which it could not have done just three years ago. It is not yet positioned to do so across the whole range of issues for which it has core accountability. As a result MfE still tends to react to, rather than lead, the policy agenda.</p> <p>While MfE has aligned itself behind a common mission, and is moving towards developing more medium-term strategy, it is still in need of a long-term strategy and analytical framework for environment management to anchor its work and ensure it is able to not only respond to current priorities but set the policy agenda for the future.</p> <p>An overarching analytical framework is also needed to underpin a long-term strategy and framework for specific areas of policy advice, such as for the NRS.</p> <p style="text-align: right;">Contd...</p>
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	<p>To be rated 'strong' on policy advice, MfE needs to:</p> <ul style="list-style-type: none"> • deepen its capability at the principal and senior analyst level, strengthening its microeconomic, regulatory and resource economics capability. It is not enough to understand production economics, MfE's point of difference is to understand the impact of production on the environment so that tradeoffs can be made over time • embrace challenge, blue sky thinking and innovation. MfE cannot lead the policy agenda without thought leaders. This requires an environment that is resilient and confident in its role, capability and culture. Sometimes these thought leaders will come from within MfE and sometimes they will be brought in on specific issues • ensure the NRS is not only united by a common mission but also has an analytical framework that allows it to take a longer-term view, weigh up risks and opportunities, anticipate policy issues and define policy priorities. Without high quality information and long-term analysis undertaken in an explicit analytical framework, decisions will be made on the basis of short-term interests • consider whether it is time to review progress against the original policy review objectives and what is required to address current and future requirements in light of that experience. The focus to date has been on the tactics of building policy tools and capability. In future, the focus needs to be on delivering longer-term strategic policy frameworks, thought leadership and improving the depth and scope of MfE's policy advice.
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Core business 2: Implementation of legislation and Treaty of Waitangi commitments, including administration of non-departmental funding Covers: Resource Management Act (RMA); National Policy Statements (NPS) and National Environmental Standards (NES); Waste Minimisation Act including Waste Levy; ETS and Waikato River co-management.	
PERFORMANCE RATING Effectiveness  Efficiency 	Performance Rating (Effectiveness): Well placed Performance Rating (Efficiency): Needing development MfE's work on the RMA, NPS, NES, and ETS has been discussed in the government priorities sections. HSNO and waste minimisation In relation to HSNO, MfE acknowledges it needs to lift its performance. The EPA and its predecessor, Environmental Risk Management Authority (ERMA), have alerted MfE over the last decade to the risks associated with the HSNO Act and its regulations. Of particular concern to the EPA is the complexity of requirements for preventing and managing adverse effects of hazardous substances. At the same time, EPA considers the HSNO Act imposes a significant compliance burden for small and medium enterprises (SMEs), in particular, which comprise 97% of New Zealand businesses. The lack of progress in addressing these concerns has meant the matter has now been elevated to the Minister for action. This issue is underscored by the Treasury's assessment of the regulatory environment for HSNO (refer <i>Regulatory Impact</i> section) which found issues with the current regulatory environment. MfE manages implementation of the Waste Minimisation Act 2008 and acknowledges there is a gap in regulatory policy. MfE also requires better financial information for setting the waste levy. It is clear that these areas have lacked attention owing to the rest of MfE's workload in recent years. Looking forward, it is critical MfE uses an appropriate analytical framework to establish the priority of such issues and fills identified capability gaps to address them. These actions would ensure that all of MfE's areas of responsibility are given appropriate and timely attention, while delivering on current government priorities. Implementation of Treaty of Waitangi commitments MfE's relationship with iwi is discussed in the <i>Collaboration and Partnerships with Stakeholders</i> section. Overall, MfE performs strongly in this area and if this core business area was separated from the other areas under this heading, it would have received a 'strong' rating.
	Contd...

	<p>MfE has a role in implementing Crown commitments under the Treaty of Waitangi, including consultation, joint projects, regular meetings and environmental accords with specific commitments. Currently, MfE is involved in 17 settlement negotiations. It has ongoing obligations to 25 groups as a result of Treaty settlements and this list will increase as the current negotiations proceed to settlement. These obligations include monitoring of a few co-management agreements between iwi and regional councils or TLAs, such as the co-management agreement for the Waikato River, where significant funds have also been allocated to clean up the river.</p> <p>As New Zealand nears the completion of Treaty settlements, MfE's monitoring role is expected to increase. Iwi representatives already say they need better access to people at MfE.</p> <p>Administration of approximately \$90m Non-Departmental Expenditure</p> <p>Stakeholders report good and open engagement on the management of the funds, including those for clean up of the Waikato River referred to above and those for waste minimisation, contaminated sites remediation, community environment and environment legal assistance. In addition, MfE monitors other significant funds to restore a number of freshwater lakes and rivers, including Hawke's Bay rivers and Rotorua and Taupo lakes. A different approach is also expected, to move to assessing whether the funds are meeting their desired objectives rather than simple compliance monitoring, and to identify whether there are better ways these funds can be administered and monitored.</p> <p>To date, MfE has considered its role to be administration of legislation rather than thinking about the intervention logic. MfE has acknowledged that while its administration of the funds meets compliance requirements, it needs to shift focus to consider whether these interventions and related funding could deliver more value for money and be more administratively efficient. As mentioned above, MfE needs to ensure it is able to respond to the full breadth of its policy responsibility and, should it decide that particular areas are not a priority, take due account of the opportunity costs of such choices.</p> <p>To improve performance MfE should:</p> <ul style="list-style-type: none"> • complete a significant review of HSNO, including the productivity consequences of the environmental options • review post-Treaty planning requirements, including whether funds are delivering value for money • review the effectiveness and efficiency of funds administration, including for waste minimisation initiatives, and the delivery of value-for-money outcomes of these funds.
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Core business 3: Environmental information and reporting Including international reporting obligations re the greenhouse gas emissions and state of the environment.	
PERFORMANCE RATING Effectiveness  Efficiency 	<p>Performance Rating (Effectiveness): Needing development Performance Rating (Efficiency): Needing development</p> <p>MfE's performance in meeting international reporting requirements of greenhouse gas emissions is well regarded. The LUCAS system (discussed in the <i>Asset Management</i> section) has been reviewed as effective and efficient, the benefits of which are shared as MfE has provided open access.</p> <p>MfE's environment reporting is performed well in relation to technical reporting of established indicators. However, MfE could demonstrate environmental leadership in this area by creating a companion version of this report that would reach a wider non-scientific public audience, not only in terms of what the indicators are saying for the environment but also the economic and social consequences.</p> <p>MfE's stakeholder survey considered that environmental science and research is not sufficiently joined up; there are both gaps and duplication. This is a concern for many stakeholders; significant savings and improvements in the quality of data would result, if addressed. New Zealand's environmental information is collected by a large number of local and central government organisations, such as regional councils, TLAs, universities, Statistics New Zealand, LINZ and crown research institutes. Information is collected in a range of different formats, many with insufficient quality.</p> <p>In the current areas of significant reform, such as water and the RMA, there is a paucity and disparity of good data, eg, freshwater information, because of poor MfE guidance to TLAs and regional councils. MfE recognises that data has been supply- rather than demand-driven and is changing its own position on data gathering (refer <i>Information Management</i> section). However, there would be considerable compliance cost savings and opportunity benefits if MfE, as New Zealand's environmental steward, provided a much needed joined-up approach, with common standards and streamlined collection for appropriate environmental information. A number of stakeholders also consider MfE to be insufficiently proactive about challenging questionable scientific evidence and ensuring comprehensive and balanced information and evidence is brought to bear on key resource management matters. Where data is incomplete, of variable quality or lacking, MfE should be transparent about this, evaluating and acknowledging data deficiencies.</p> <p style="text-align: right;">Contd...</p>

	<p>MfE currently provides some information about, but otherwise leaves it to local government to identify and plan for, consequential impacts of climate change, such as: flooding from rising sea levels and droughts affecting specific industries, including agriculture and hydro capacity. This is one area where MfE should be providing national leadership, guidance and information for central and regional planning. MfE has not yet given attention to issues around natural hazard management and models for managing such risks.</p> <p>To improve performance MfE should:</p> <ul style="list-style-type: none"> • make environment reporting and its economic and social consequences accessible to a wider audience • demonstrate environmental leadership by providing guidance on data standards and facilitating open access of New Zealand's environmental data • provide national leadership on information and modelling about how to manage domestic consequences of climate change effects • ensure balanced and comprehensive data is available and used to underpin robust analysis • acknowledge the lack and limitations of data, where this is not available, incomplete or unreliable, and the risks this presents to any analysis • prioritise improvements according to what is required to underpin longer-term strategy and to support the use of an analytical framework, as discussed elsewhere in this Report.
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Crown entity monitoring	
<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Needing development</p> <p>Performance Rating (Efficiency): Needing development</p> <p>MfE monitors the EPA (recently established). EPA has funding of \$24 million pa (non-departmental expenditure) 160 FTEs and transactional responsibilities for national environmental issues, such as national RMA consents, HSNO and administration of ETS.</p> <p>EPA and MfE consider their working relationship to be strong, despite differences around HSNO (refer <i>Implementation of Legislation</i> section). While it is early in the process, EPA considers MfE has added value in its oversight to date. MfE needs to do more than compliance monitoring and to ensure it continues to add value through its monitoring.</p> <p>To improve performance, MfE needs to monitor EPA's performance through a value-for-money lens, as well as assessing whether it is meeting its statutory objectives.</p>

Regulatory impact	
PERFORMANCE RATING 	Performance Rating: Needing development
	<p>MfE administers 147 pieces of legislation including 12 Acts where it has primary responsibility. The scope of these covers policy for the entirety of New Zealand's environment, including RMA, EEZ, waste minimisation, HSNO, climate change and ozone layer protection. In 2011 MfE was responsible for 31 regulatory items, including the EEZ Act.</p> <p>Implementation for much of this legislation and regulations is done outside MfE by regional councils, TLAs and the EPA. However, MfE has monitoring obligations for those areas.</p> <p>The Treasury's view of regulatory best practice identifies HSNO legislation as a major area for concern, having overly burdensome compliance and duplication and potentially limiting productivity. A more effective regulatory framework for the RMA and the need for a regulatory regime for freshwater management have been discussed in the Government priorities sections and comments have been made elsewhere in this Report regarding MfE's effectiveness in RMA, HSNO and waste minimisation.</p> <p>To improve performance MfE should:</p> <ul style="list-style-type: none"> • develop its capability to undertake cost-benefit analysis when considering regulatory impacts of existing as well as new legislation • complete the review of the HSNO regulatory regime and confirm areas for improvement • deliver effective reforms of the RMA and freshwater management to underpin sustainable development.

ORGANISATIONAL MANAGEMENT SECTION

This section reviews the agency's organisational management. The questions focus on ex-ante and often guide Lead reviewers to future and current performance. Final judgements and ratings are informed by the scope and scale of the performance challenge.

Part One: Leadership, Direction and Delivery

Purpose , Vision and Strategy How well has the agency defined and articulated its purpose, vision and strategy to its staff and stakeholders? How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?	
PERFORMANCE RATING 	<p>Performance Rating: Needing development</p> <p>MfE's 'Strategic Direction' was launched in August 2010 and sets out the mission and strategy, work programme priorities, indicators of success and the approaches and behaviours necessary to achieve these. MfE's mission "Environmental stewardship for a prosperous New Zealand" is widely accepted within and outside MfE, including in the NRS.</p> <p>The Strategic Direction is implemented through an Outcomes Framework and includes five supporting strategies: the New Thinking Strategy, Stakeholder Strategy, People Capability and Culture Strategy, Tuhono Strategy and Information Strategy. Progress with the Strategic Direction and supporting strategies is reported quarterly to the Environment Leadership Team (ELT) through 'dashboards' and discussion with each lead director. Monitoring includes some key performance indicators, such as the Gallup Engagement Survey, as well as estimates of internal behaviour change. In early 2012 it was agreed that progress and priorities would be jointly considered by ELT and the Directors Forum (third tier) each quarter.</p> <p>A recent re-launch of the Strategic Direction began a programme, referred to as 'keeping it real', which placed greater emphasis on strategic approaches as well as further reinforcing desired behaviours and culture change. Over the next year the focus of supporting strategies will be on improving quality, constructive feedback, medium-term planning and stakeholder engagement.</p> <p>There has been recent focus on the need to develop medium-term plans to translate the high-level direction into a sequence of interventions that will be effective in achieving the impacts. In March 2012 ELT identified five directors as 'impact leaders' to help drive the next steps and lead the work on medium-term thinking.</p> <p style="text-align: right;">Contd...</p>

A key element of linking strategy into the business has been ensuring a clear 'line of sight' from individuals' day-to-day work to the Strategic Direction and outcomes framework.

MfE also recognised the need to appoint a Deputy Secretary Sector Strategy to assist the Chief Executive with leadership across the NRS and the wider sector. The role is also responsible for longer-term strategic policy advice in MfE.

The Strategic Direction and mission are clearly defined and widely accepted. Most of the emphasis over the past two years has been on the desired behaviours, which are now well integrated into the organisation, and on improving the basic machinery for setting the strategic direction and mission and the governance of these. The Gallup Engagement Survey and Stakeholder Perceptions Audit suggests significant progress has been made since 2009. On these aspects the MfE performance has been strong.


Nevertheless, there is a need to address some critical areas. MfE recognises that what is needed to achieve the desired impacts is not yet fully integrated into business planning and monitoring processes and this is being worked on in the current financial year.


There is another gap, however, and that is a medium- to longer-term strategy for environment management, together with an analytical framework in which to anchor current strategy. A wide range of stakeholders have noted the need for MfE to lead development of such a framework to allow it to move from reactive to proactive. Developing a strong long-term strategy, based on a multidisciplinary analytical framework and good evidence about effective interventions, is the critical challenge for the next few years, to more closely focus and prioritise MfE's efforts on achieving impact and outcomes.

MfE and the NRS will be able to use the analytical framework for environment management to develop long-term strategy and an analytical framework for natural resources for socially and environmentally sustainable development.

Looking forward, to be 'strong' on Purpose, Vision and Strategy, ELT needs to:

- lead development of an analytical framework to support the long-term strategy for environment management. The analytical framework should provide for the integration of economic, environment and social considerations to be analysed and prioritised, allowing trade-offs to be made in an explicit and transparent manner
- develop a natural resources medium- to long-term strategy and analytical framework that is used by the NRS to prioritise work and monitor progress
- bring a fresh, forward-looking approach to leading the sector and MfE's own work. While a tremendous amount has been achieved in building MfE and NRS over the last three years, it is time to put a line under that accomplishment and frame the strategic direction clearly around the long-term challenges and opportunities ahead.

Leadership and Governance How well does the senior team provide collective leadership and direction to the agency?	
PERFORMANCE RATING 	<p>Performance Rating: Strong</p> <p>The ELT comprises the Secretary for the Environment and four Deputy Secretaries, including the Tumuaki. The ELT has been stable for three years, having only one change in its members in that time. Some change is about to occur with the establishment of the new role of Deputy Secretary, Sector Strategy, and one other ELT member moving to a Tier 2 role at MBIE.</p> <p>ELT defines its role as ‘outward-facing’, focusing on the strategic direction of MfE, strategic issues and external relationships. The Directors Forum (third tier) has primary responsibility for driving MfE’s business and resource allocation decisions. The Forum is chaired by the Deputy Secretary, Organisational Performance to enhance the linkages between these two groups. The Directors Forum has the potential to connect MfE through the middle as it matures, but it will be important to ensure ideas from it are given real weight and linkages and communication to frontline managers are strong.</p> <p>ELT shares a common sense of purpose and commitment, taking collective responsibility for the direction and development of MfE. The Strategic Direction has been consistently championed by ELT, as it recognised the need to reinforce culture change and performance improvement. ELT has developed a strategic risk profile, established a programme of strategic relationship building with stakeholders and is actively involved in discussions about the strategic policy work programme.</p> <p>ELT discusses and debates issues facing MfE internally and externally and then takes collective responsibility for the decisions. The relationships between ELT members are strong and mutually supportive. ELT regularly talks about its own performance and the need to develop leadership capability in the wider management team. The 360° feedback gathered in 2011/12 indicates there is now a high core capability across the management team.</p> <p>To retain a ‘strong’ rating on Leadership and Governance ELT needs to:</p> <ul style="list-style-type: none"> • carefully balance the role of operating on the business to leading within the business • ensure there is effective succession planning in place for all senior leader roles • drive a culture that values and rewards challenge and innovation. Lead by being ‘hard’ on ideas. Focus on substance over process • take a more iterative approach to developing the future direction and culture of MfE and the NRS as the medium- to longer-term strategy is developed, drawing on staff throughout the organisation and other stakeholders throughout the process • move faster from consultation and ideas to real impact and outcomes.


Values, Behaviour and Culture How well does the agency develop and promote the organisational values, behaviours and culture it needs to support its strategic direction?	
PERFORMANCE RATING 	<p>Performance Rating: Well placed</p> <p>MfE's People Capability and Culture Strategy aims to foster a culture of learning, debate and challenge and a corporate culture of service and partnership. MfE considers the Strategic Direction behaviours – analyse, engage, learn, validate, collaborate – contain an implicit set of values and that these have been strongly promoted over the past two years. We found that staff are very aware that these behaviours indicate the way they are expected to operate.</p> <p>MfE's culture is open, respectful, collegial and committed to the mission. These characteristics make it a people-oriented place to work, where individuals can feel part of the team and where learning is encouraged. MfE has a sophisticated and genuine culture of partnership and collaboration.</p> <p>The 'professionalising policy' approach promotes a culture of learning and questioning within the policy function. The COBRA Guide and Professionalising Policy Handbook both seek to encourage learning, critical reasoning, rigorous analysis and peer review, as well as the ability to give hard advice.</p> <p>Despite this, staff are not always comfortable with robust debate and challenge or giving difficult feedback. MfE does, however, recognise that these are characteristics of high-performing organisations.</p> <p>MfE's self-assessment noted that, compared with the past, there are less obvious silos and group cultures. Furthermore, the Stakeholder Perception Audit 2011 "noted the transformation in MfE's culture which had accompanied a lift in its credibility and influence". Nevertheless, MfE itself observed there is still variation in culture between different divisions and directorates. The Policy Division, for example, is seen as having a strong culture, focused on professionalising the craft of policy analysis, while the Programmes Division has more directorate and team-based cultures. Organisational Performance comprises a series of specialist teams but is working on greater integration across the division.</p> <p>Recent changes resulting from the establishment of the Water Directorate have brought teams together from Policy and Programmes, as well as introducing staff from other NRS agencies. Staff report that the introduction of team members from other agencies with different missions, skills and culture has brought contestable ideas and debate, innovation and challenge. This has underscored the need for more of these attributes within MfE.</p> <p style="text-align: right;">Contd...</p>

	<p>Finally, the Strategic Direction ‘keeping it real’ programme, which started in mid 2012, includes a greater emphasis on the symbols, signs and stories regarded as important in reinforcing culture change within the organisation.</p> <p>To obtain a ‘strong’ rating on Values, Behaviour and Culture MfE needs to:</p> <ul style="list-style-type: none"> • demonstrate the value the organisation places on challenge, innovation and excellence and on performance rather than process. Consideration could be given to staff developing a core set of explicit values, to sit alongside MfE behaviours • be more confident about the sustainability of the MfE culture. MfE can be confident that its culture is strong enough to handle individuals with a range of views, behaviours and values. If behaviours arise that are unacceptable, they should be dealt with through performance management. This may assist MfE to fill its vacancies at senior and principal analyst level • consider whether in the future the Strategic Direction and plan can be developed in a more iterative manner between senior leaders and staff, to allow more staff to participate in the leadership of the organisation.
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Structure, Roles and Responsibilities

How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business?

How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p>
	<p>MfE was restructured in 2008/09 with a focus on improving systems, policies and practices and clarifying roles and responsibilities. MfE reorganised on a functional basis into three major divisions – Policy, Programmes, and Organisational Performance (formerly Strategy and Corporate). ELT focused on strategic leadership and external relationships, while directors focused on the day-to-day running of the business, including managing the work programme, budget and resource allocation. Recently, a decision was taken to have the Deputy Secretary, Organisational Performance chair the Forum to improve the connection to ELT and accelerate improvement in group effectiveness.</p> <p>A number of further changes have been made since 2009 to teams and reporting lines. Noteworthy is the establishment of a cross-Ministry and cross-sector Water Directorate and RMA working group in mid 2012. The establishment of the Water Directorate has created flow-on consequences, at least temporarily, cutting across the new organisational structure by breaking down the separation of policy functions and implementation/operations roles, though these roles are still carried out by separate teams within the co-located Directorates.</p> <p style="text-align: right;">Contd...</p>

MfE noted in its self-assessment that roles and responsibilities for particular work areas are seen as clear at the 'macro level' of divisions and directorates but sometimes less clear at the level of teams working on different aspects of the same issue, for example, resource management.

With respect to roles and responsibilities within the NRS, the sector operates under a governance charter, which sets out the roles of chief executives, deputy secretaries, director-level groups and the support unit. We observed a strong alignment across the NRS about the role of the sector as a whole. However, MfE has noted there may be less understanding at lower levels of the member organisations about roles and responsibilities in the sector.

MfE managers have identified a need for further clarity internally about the MfE role in leading and influencing the wider environmental management system. It is noteworthy that a number of sector players also called for more clarity about the roles and comparative advantage of each agency in contributing to sector outcomes.

Across the State Services there appears to be greater clarity about roles and responsibilities in relation to climate change than on some other environmental issues. For climate change there are well-established governance structures and coordination mechanisms, as well as regular discussions about agency roles. Finally, the roles, responsibilities and accountabilities of delivery agencies (EPA, local government) are set mainly through the legislation under which they operate.


MfE noted in its self-assessment that apart from the Statement of Intent and Four-year Budget Plan there is limited medium-term strategy or planning to ensure that MfE is working on the right things to achieve impact and outcomes. Intervention logic is not yet well integrated into planning, and planning is not anchored in a medium- to long-term strategy. The annual work programme has been driven primarily by responding to Ministerial priorities and statutory or cross-sector obligations. MfE has also tended to work sequentially as new priorities emerge. It has been an ongoing challenge to work across the breadth of its portfolio and manage the flow-on effects of policy development into implementation and operational responsibilities.

A multi-year project to improve planning was initiated in late 2011 and got under way in early 2012. It aims to improve the effectiveness and efficiency of business planning and budgeting and to ensure better management reporting, systems and tools. While it will take several years for full implementation, key elements, such as clearer expectations of managers, introduction of time recording and improved corporate reporting, are scheduled for the current financial year.

MfE hopes that the impact leader role taken on by directors will strengthen medium-term strategy and planning. This approach is at an early stage, with a pilot programme in climate change as part of 2012/13 business planning and full implementation under way leading into 2013/14 planning.

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	<p>For major projects, a Project Management Office was established in late 2009 to bring a stronger project discipline into key pieces of work. Project methodology, tools and templates are available to assist staff, along with advice, training, coaching and mentoring. A review in June 2011 found that project maturity levels are still patchy but better where there are experienced project managers. The review also indicated the need to improve the level of planning capability across the organisation, as well as strengthening the linkages between work programme planning and financial management.</p> <p>The four-year planning project aims to tackle the problems at a manageable pace, so that better management information is available to support better planning towards achieving the intended impacts. The planning process for 2013/14 will begin much earlier than in the past, so that the strategic context is established by late 2012. Impact leaders will play a major role in determining the medium-term direction and making sure MfE is working on the right things to get results.</p> <p>To be rated 'strong' on Structure, Roles, Responsibilities MfE needs to:</p> <ul style="list-style-type: none"> • be clear that its point of difference in the NRS is to bring an all-of-government view on the environment. In doing that, MfE must play a cross-cutting role on a whole of environment approach, understanding the surrounding economic and social imperatives • ensure the sector takes a more deliberative approach to the roles and comparative strengths of each agency the NRS. MfE should be confident in its role as the environmental expert and leader. It should also be confident that other agencies will play to their comparative strengths, taking into account the interface with others. The result will be more robust advice • focus on the next steps for the sector, including four-year budgets linked with a shared view of what matters for NRS. Agreeing joint plans will be dependent on agencies accepting they may have to give things up • as the role of the sector matures, review the processes and outcomes achieved using the Water Directorate model and test whether this model should have wider application. This may raise fundamental questions about whether the NRS core agencies should be brought under a departmental structure. Current innovations clearly put these issues on the table for the future • consider rotating the chair amongst senior Directors, with a Deputy Secretary in attendance, as the Directors Forum matures • ensure the four-year business planning project is anchored in a well articulated long-term strategy.
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Review How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?	
PERFORMANCE RATING 	<p>Performance Rating: Needing development</p> <p>As noted in MfE's self-assessment, there is currently a patchy understanding of whether environmental legislation is achieving its stated purpose. Evidence gathered for policy reviews is often from one-off research rather than extracted from regular monitoring and evaluation. MfE is putting in place measures to improve this. In 2009 it established a monitoring, compliance and review team and has since added a dedicated evaluation function. A monitoring and evaluation programme for the next three years has been developed. Priorities for monitoring and evaluation are determined as part of the annual business planning cycle.</p> <p>MfE recognises the importance of incorporating monitoring and evaluation into its work. This is reinforced by the COBRA framework and project management methodologies, systems and tools, which include evaluation as a core element. There is some distance to go to ensure these methodologies are consistently applied.</p> <p>MfE currently reports progress on its three outcomes using state-of-the-environment indicators for New Zealand, which are regularly updated on MfE's website. Well-established monitoring processes include those for RMA implementation, national air quality standards and greenhouse gas emissions. Looking forward, there is a wide range of priorities for monitoring and evaluation frameworks to be developed, including resource management, freshwater management, the ETS and remediation projects.</p> <p>While monitoring and evaluating the implementation of environmental legislation, the NPS and NES are increasingly being improved, but it has proved more difficult to monitor effectiveness. Attribution of results to policy interventions made by MfE or other interventions beyond the reach of government is difficult. In addition, there are often significant time lags between an intervention being made and the results becoming evident in the environment.</p> <p>Finally, there are examples of evidence from monitoring, evaluation and research feeding into redesign of the policy settings and legislative or regulatory changes. This was the case with the reviews of the ETS, waste levy and national air quality standards.</p> <p style="text-align: right;">Contd...</p>

	<p>Importantly, MfE recognises that for monitoring, evaluation and review of both implementation and effectiveness it is essential to have good evidence for decision-making and to know if progress is being made towards environmental outcomes. To be rated 'strong' in this area MfE will need to:</p> <ul style="list-style-type: none">• continue to extend monitoring for international reporting, state of the environment indicators, RMA processes and impact measures to ensure comprehensive and consistent coverage of key areas• prioritise evaluation about the effectiveness of policies, programmes, legislation and regulations or about progress towards achieving actual environmental outcomes• use monitoring, review and evaluation information as part of the input to help set priorities for MfE and the NRS, given the increasingly constrained budgets across the sector.
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ORGANISATIONAL MANAGEMENT SECTION

Part Two: External Relationships

Engagement with the Minister(s)	
How well does the agency provide advice and services to its Minister(s).	
PERFORMANCE RATING 	Performance Rating: Needing development
	<p>Ministers have a high regard for MfE's work (together with MFAT and Treasury) in relation to ETS and climate change, MfE's recent delivery of the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012, and its advice and relationships with iwi.</p> <p>It is still too early to say whether MfE will meet expectations regarding solutions to the current complex issues around freshwater management and the RMA. MfE has considerable work to do to give Ministers confidence that it can deliver bold and creative strategic solutions for freshwater management and RMA reforms, and subsequently in natural resources. MfE will need to: provide accurate and timely advice; address issues substantively rather than process-wise; and ensure advice is based on robust data and information.</p> <p>There is a correlation between the consequences of MfE capability gaps discussed elsewhere (refer <i>Leadership and Workforce Development</i> section) and the relationship with Ministers. It is critical that gaps in strategic thinking, and understanding of the consequences of policy recommendations, particularly the effect on constituent parts of the economy and environment, are addressed.</p> <p>To improve performance MfE needs to:</p> <ul style="list-style-type: none"> • fill the capability gaps discussed in the <i>Leadership and Workforce Development</i> section • improve information reliability and the integrity of analysis and present it clearly for Ministers • ensure analysis is outcomes-focused with substantive solutions, rather than focusing discussions around process.

Sector Contribution How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector?	
PERFORMANCE RATING 	<p>Performance Rating: Strong</p> <p>MfE performs cross-sector work very well. Its contributions to NRS, Chief Executive Environment Forum (CEEF), EPA and iwi are well regarded, as is its co-leadership of work on freshwater. MfE works with TLAs through the regional councils, particularly at CEEF. This is one area where improving direct relationships will lift MfE performance (refer <i>Resource Management and Information Management</i> sections). This is consistent with MfE's stakeholder report, which indicated that more frequent and early engagement with stakeholders outside the core public sector was needed, especially to clearly communicate MfE's priorities and to gain an understanding of the implications of these on stakeholders.</p> <p>NRS</p> <p>The NRS was brought together as a forum to look collectively at cross-sector environment and economy issues, including: freshwater, marine, minerals and petroleum, climate change and biodiversity, and to create an overarching vision for New Zealand's economic use of its natural resources. It includes MPI, MBIE, TPK, LINZ, and DoC, with MfE providing leadership and hosting the NRS secretariat. MfE is regarded by the group as performing its leadership role well.</p> <p>A benefit of MfE's groundwork to bring together the NRS is the fast and agile response to current cross-sector work on the RMA and freshwater management, as well as the more coordinated approach to key natural resource issues as evidenced by the NRS Briefing to Incoming Ministers in 2011 and a joint workplan to prepare for and deliver a marine policy framework. NRS has also provided a forum to collaborate on shared services, such as leadership development and training, in which MfE is an active participant. The leadership development initiative is a good example of pooling resources to improve the overall effectiveness and efficiency of leadership development in the sector, as well as encouraging stronger collegial links and collaboration by managers across the participating agencies.</p> <p>Regional Councils and TLAs</p> <p>New Zealand has 17 regional and unitary councils and 61 TLAs.</p> <p>In respect of the regional and unitary councils, MfE is well regarded for turning CEEF into a real forum for robust dialogue around environmental issues. This relationship needs to continue to be strengthened, not just because of the councils' significant role in natural resource management but also because it is where MfE's post-Treaty settlement interface will occur.</p> <p style="text-align: right;">Contd...</p>

MfE's relationship with TLAs is not as strong, and TLAs consider that they are not sufficiently engaged with nor listened to. The water NPS is an example of this, as it required significant water infrastructure investment by councils, with little warning, for something they did not understand and which they considered MfE had not thought through. TLA views were sought late in the process. The stakeholder survey identified that MfE needs to work harder at understanding how policy is operationalised and where national policies need to take into account local differences. MfE needs to provide more and consistent guidance to TLAs to reduce the disparity of practice across the 61 local authorities. TLAs may find a forum similar to CEEF useful for engaging with MfE.


Local government also wants a joined-up view from central government agencies and this is something the NRS can do for natural resources.

Crown Research Institutes (CRIs)

MfE is generally well regarded by the CRIs with which it works and has been proactive in changing contractual relationships from transactional to collaborative partnerships, creating a win-win for CRIs and MfE. As mentioned elsewhere (Information Management section) there are considerable efficiencies that could be made from open access of central government agencies' scientific data.

To retain a 'strong' rating MfE needs to continue to improve performance by:

- collaborating with the NRS to consider what else may be needed to facilitate delivery of outcomes
- building strong relationships with TLAs and providing leadership on implementation and standards for RMA monitoring
- engaging with iwi and TLAs early and often, allowing time to consider the practical consequences of proposals, rather than MfE consulting when decisions are already made.

Collaboration and Partnerships with Stakeholders How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?	
PERFORMANCE RATING 	Performance Rating: Strong
	<p>MfE's 2011 stakeholder perception audit recognised MfE had come a long way but still had a long way to go and needed more frequent engagement, especially outside the public sector. MfE acknowledged that its earlier engagement was ad hoc and transactional rather than strategic. As a consequence, MfE's stakeholder engagement strategy centred around a key group of influencers in primary industry, business, iwi, thought leaders and scientists. While this has delivered good relationships with those parties, MfE needs to make these engagements more focused around what they are expected to deliver. MfE also needs to invest in a good knowledge management system, as high staff turnover is a real frustration for stakeholders who end up having to re-educate MfE on the background to the relationship. There is now a need for MfE to leverage off its good relationship work with key influencers and broaden engagement to a wider group of appropriate industry stakeholders, eg, the marine sector.</p> <p>Iwi</p> <p>Previously, MfE's work with iwi was limited to providing assistance to the Office of Treaty Settlements (OTS), supporting the Treaty settlements process and monitoring post- settlement implementation obligations. MfE's Tuhono Strategy was put in place to ensure the Crown-iwi relationship under the Treaty was better reflected in environmental policy and resource management arrangements. As a consequence MfE is now regarded within the NRS as having a strong relationship with iwi compared to many other agencies in the Public Service; MfE's Tumuaki and Chief Executive Officer (CEO) are highly regarded as having cemented strong iwi relationships. Other central government agencies have been able to leverage MfE's iwi relationships, which are sometimes used as a gateway.</p> <p>MfE's stakeholder survey identified that iwi relationships with MfE were deep and trusting but iwi wanted a joined-up view across all of government. Delivery of significant portions of this all-of-government view is within the scope of NRS. However, there is a limit to what can be progressed, since strong relationships will assist difficult discussions around rights and interests in natural resources but cannot resolve the constitutional issues.</p> <p>As Treaty settlements are completed, Crown-iwi relationships need to evolve. As iwi take control of sizeable natural resources that they will wish to develop or manage in an environmentally sustainable way, MfE needs to change how it engages with iwi. MfE has yet to address this. Future demands on MfE will be focused around implementation rather than policy and MfE's relationship with iwi will change to monitoring co-partnered management of natural resources.</p> <p style="text-align: right;">Contd...</p>

LaWF

MfE has strongly embraced the collaborative work of LaWF and indicates that it will be used as a future model for engagement. However, MfE has not yet altered the way it works to embrace LaWF processes in a more systematic way throughout the policy development process. MfE needs to consider a well thought through, collaborative and seamless approach to policy development and implementation. Ceasing collaboration and reverting to old models of engagement or active disengagement causes distrust and creates a high risk of unravelling what has been achieved in the collaborative engagement. This requires a delicate and sophisticated balance between the provision of free and frank advice to the Government and the collaboration needed with a range of stakeholders to inform and strengthen policy advice and to implement government policy.

Farming

While the LaWF collaborative process strengthened the engagement between MfE and the agricultural sector, much of the tension with this group would be mitigated by comprehensive, rigorous and transparent data and analysis, which fairly attributes the impact of urban and rural activity on the environment. For the same reasons, MfE could also improve its performance with this sector by overseeing proper and consistent enforcement and monitoring of the RMA across all sectors.

Industry

MfE's key industry stakeholders value the open, quality engagement with ELT, although interviewees consider that, overall, MfE has insufficient ability to engage on business issues. Some industry stakeholders believe economic growth is still viewed with suspicion by some MfE staff and that as a consequence business is still treated with some distrust. MfE needs to ensure it has staff with experience and skill to fully understand the commercial implications of, and industry responses to, policy options. There is considerable scope to refocus enforcement if MfE has a better understanding of matters such as incentives on business to be largely self-compliant with environmental legislation.

There is also scope for MfE to provide national leadership and guidance around environmentally sustainable business practices. Industry is confused by the overlaps across public sector agencies and wants an integrated view of the environment and economy, which is something the NRS should provide.

Non-government organisations (NGOs)


NGOs generally acknowledged positive relationships with MfE but still consider it to be too reactive and in need of taking a stronger strategic view of environment management. They expect MfE to rely on its own data to identify problems, determine which environmental issues should be prioritised and when and have the courage to lead development of solutions.

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	<p>To retain a 'strong' rating MfE should:</p> <ul style="list-style-type: none"> • implement knowledge and relationship management processes and use these to widen its engagement with targeted stakeholders • fill capability gaps in respect of business acumen • engage with industry, strong in its environmental leadership role, in a genuine not pre-determined way • capture lessons learnt from the innovation that was demonstrated in the LaWF process to inform its wider collaboration with stakeholders.
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Experiences of the Public

How well does the agency meet the public's expectations of service quality and trust?

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p>
	<p>In the past, MfE produced a number of publications on environmental issues for public information. This type of activity ceased a few years ago as MfE's role as a policy agency was emphasised. MfE regards regional councils as having the major role in public awareness and education about environmental matters, as they have both the day-to-day management responsibilities and people working in the community.</p> <p>MfE delivers few services directly to the public. It is largely confined to providing online information about the state of the environment and environmental policy, programmes and proposals, and providing opportunities for input into consultation. State of environment information is provided online by MfE but much of this is scientific and technical and it is not easy for the public to understand the implications.</p> <p>MfE administers public and community environmental grant schemes but is unsure of their effectiveness. There is some evidence that the public, and some groups within it, such as iwi, confuse MfE and DoC and clarification of MfE's role would assist its branding.</p> <p>To improve performance in this area:</p> <ul style="list-style-type: none"> • as thought leader on national environmental issues, and the inconsistencies identified in implementation of national positions at local levels, MfE should revisit its current hands-off approach to engagement with the public. While this engagement would need to be targeted, it could be much more effective, including publishing clear information on key current and long-term environmental issues in which every New Zealander has a stake. This will be particularly important to lift public awareness of issues they can influence, such as low carbon choices and lifestyle effects of climate change • MfE should monitor the effectiveness of the community and public grants schemes.

ORGANISATIONAL MANAGEMENT SECTION

Part Three: People Development


Leadership and Workforce Development How well does the agency develop its workforce (including its leadership)? How well does the agency anticipate and respond to future capability requirements?	
PERFORMANCE RATING 	<p>Performance Rating: Well placed</p> <p>MfE has taken a systematic approach to developing its workforce and has clear workforce planning that identifies capability requirements and gaps. MfE has rightly lifted the bar in terms of the quality and capability of staff it wishes to attract and has had notable recruitment successes in terms of appointments to leadership roles. However, some critical capability gaps persist. It is unclear if this is because MfE has put too much emphasis on certain behaviours, turning down good policy capability who do not have some attributes MfE considers essential, or whether MfE does not have the brand to attract the skills it has identified. MfE does not yet have a real plan as to how to resolve this and so these capability gaps are likely to remain.</p> <p>To some extent MfE has mitigated the gaps by seconding policy capability from MPI and other NRS members on specific projects but otherwise intends to grow it organically. This will take some time and does not address the pressing needs for game-change thinking in its current policy work for freshwater management, RMA reforms and necessary work on HSNO, waste and marine policy, which has a real opportunity cost.</p> <p>There is also a reluctance to deviate from the current path and recalibrate internal thinking around the mix of senior skills that would really lift MfE's performance. While ELT wants generalists, external stakeholders expect, and it may indeed be necessary to have, a certain level of subject matter experts. There are pressing current needs for capability in strategic planning and policy, resource, market- and micro-economics and general business acumen. MfE also needs policy entrepreneurs on some key current issues, eg, freshwater, marine and oil and gas, to ensure options for environmentally sustainable economic growth are identified. However, MfE is currently focused on looking for capability that will be a good fit for the existing homogeneous culture, which is unlikely to deliver the challenge, path cutting thinking and lift in performance MfE is seeking.</p> <p>There are real key person risks around the CEO and ELT succession, particularly for cross-sector work and external relationships and also in many technical areas critical to MfE's performance.</p> <p style="text-align: right;">Contd...</p>

	<p>MfE has identified weaknesses in its workforce diversity, with a particularly low number of Māori (3% compared to the public sector average of 16%) but does not have an explicit plan to address this. While women make up 62% of the workforce, they are not currently visible at ELT and not proportionally represented at tier 3, although there are no obvious barriers to this being rectified. Both these weaknesses need to be addressed to attract a diversity of thinking about environment management in New Zealand. It is unclear whether MfE's workforce plan anticipates the 'implementation bow wave' from the current policy work, which will require a very different skillset and a change in focus for future workforce planning from the current emphasis on building policy capability.</p> <p>As part of its current plans to grow capability and monitor staff performance, MfE has clear development and training plans, including leadership development, some of which is shared across the NRS.</p> <p>To continue to improve performance MfE needs to:</p> <ul style="list-style-type: none"> • rethink its current approach to its capability requirements and fill these gaps as an urgent priority • identify key person risks and ensure these are mitigated by succession planning and effective knowledge management systems • develop a plan to address future potential gaps in capability arising from the shift in the current heavy policy work programmes to the implementation phase that will require more capability in the programmes area • schedule post-implementation reviews on restructures and other change programmes to ensure the desired results are being delivered.
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Management of People Performance

How well does the agency encourage high performance and continuous improvement among its workforce?


How well does the agency deal with poor or inadequate performance?

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p>
	<p>As with Leadership and Workforce Development, MfE has taken a systematic approach to managing people performance. To ensure a focus on the things that matter, common expectations and objectives for each level of MfE are set in June each year; these cascade from ELT. Staff performance and development plans are intended to provide a 'line of sight' for staff through to the Strategic Direction and accountability documents. Individuals and their managers agree the individual's personal objectives for delivery of work in July each year; the objectives are expected to include an element of 'stretch' while still being achievable.</p> <p style="text-align: right;">Contd...</p>

	<p>In June, performance discussions between the managers and their direct reports reflect over progress and development during the year, with a written performance review and assessment of the person's position on the performance and development continuum. This assessment is subject to a moderation process across the directorate, division and all of MfE to ensure fairness and consistency.</p> <p>From May this year managers are now expected to schedule a monthly performance discussion with each of their direct reports, covering progress and challenges and with specific feedback on performance. Training has been provided to help managers give effective feedback. As this approach is new, MfE realises it will require ongoing monitoring and support from the Human Resources (HR) team until the system is well embedded.</p> <p>Procedures for dealing with poor performance and updated disciplinary procedures for dealing with misconduct were also approved in May 2012.</p> <p>MfE now has a best practice system for people performance, with a clear line of sight cascaded from the organisation's objectives through direct reporting layers to individual performance expectations. Each staff member can see how their work contributes to MfE's current impacts and should receive regular feedback on how to improve their performance, with early identification where performance is not to expectations.</p> <p>The emphasis at MfE is on expanding the current culture of openness and improving quality of policy advice. MfE leadership acknowledges that the current Bell curve of staff performance is skewed towards most staff meeting expectations and accepts that the assessment bar for existing staff has been set too low. In addition, staff indicate that poor performance is not dealt with as well as it should be. MfE also has a reasonable churn of graduates, with some star performers not being sufficiently stretched. Yet these results are inconsistent with where MfE perceives it has set the bar for selecting new managers. MfE has deliberately chosen to trade off good technical knowledge for good people management skills.</p> <p>The overall picture is of an organisation that has taken some strong steps to improve the people management performance but significant gains are still possible from addressing a few areas critical for MfE to move from 'good' to 'great'. Valuing its existing performers and attracting star performers will result in a considerable organisational pull to high performance and MfE should have confidence that it now has in place the culture and HR processes to manage difficulties that arise from diversity and operating at a high performance level.</p> <p style="text-align: right;">Contd...</p>
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	<p>MfE could significantly further improve performance by:</p> <ul style="list-style-type: none"> • re-calibrating the organisational culture to one that explicitly values excellence and exceptional performance, delivery and sound implementation of optimal outcomes. This would shift the current emphasis away from the quality of the production process to a focus on delivery of quality outcomes • lifting performance expectations and tightening up on poor performance. HR policy and practice needs to focus on attracting high quality staff, stretching star performers and ensuring that new procedures for dealing with non-performance are embedded.
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<p>Engagement with Staff</p> <p>How well does the agency manage its employee relations?</p> <p>How well does the agency develop and maintain a diverse, highly committed and engaged workforce?</p>
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<p>PERFORMANCE RATING</p> <p></p>	<p>Performance Rating: Strong</p> <p>MfE has strong and regular engagement with its staff, who demonstrate strong alignment with MfE's mission statement, impacts and behaviours.</p> <p>There are regular general forums for all staff and staff value these opportunities to engage with ELT. MfE is actively encouraging regular one-on-one sessions between staff and managers where clear performance expectations, with strong alignment to organisational objectives, are reviewed. MfE's recent Gallup survey shows engagement is currently among the top 6 in the New Zealand public sector (though this is well below Gallup results of top performers in the private sector). These results are a significant improvement from prior years, with a particularly strong result in the proportion of MfE's workforce that are highly engaged, compared to those who are disengaged. There is an area of concern, but also opportunity, in the Gallup results as 50% of staff report they are reasonably sure but not 100% sure they know what is expected of them at work. In a workforce that needs to be agile, staff are more likely to stay engaged and to perform to their best if they are clear about their roles and that of their teams. However, if there are lots of internal changes and role clarity is eroded, engagement is also likely to wane.</p> <p>The cultural changes put in place have created an open and agile environment so that the recent significant internal re-organisation to support policy development for freshwater management and the RMA, including a large number of sector secondees, was able to be implemented swiftly. As this form of dynamic operating environment is likely to be required for other complex cross-sector issues, such as marine, MfE's current project to introduce better planning will mitigate risks to business as usual.</p> <p style="text-align: right;">Contd...</p>
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	<p>While the organisational culture is very open and staff regard MfE as collegial and a nice place to work, it is clear that the high emphasis on alignment with current organisation values and behaviours in the selection of new staff and in the training of existing staff has created a highly homogenous culture. While this was necessary in the past to raise the quality of output and management skills, there is an obvious cost in the lack of challenge, innovation and prudent risk-taking, which are features MfE needs to produce real environmental thought leadership.</p> <p>Forty per cent of MfE's staff are members of the Public Service Association (PSA) and both MfE management and PSA representatives consider that the two organisations engage effectively and work collaboratively and in a spirit of partnership on matters of mutual interest.</p> <p>To retain a 'strong' rating MfE should:</p> <ul style="list-style-type: none"> • focus on ensuring staff are receiving regular constructive feedback and are clear about their roles and what is expected of them; performance and engagement will drop if there is not role clarity as teams are formed at short notice to meet business needs • seek out and value the challenges that come from diverse views.
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ORGANISATIONAL MANAGEMENT SECTION

Part Four: Financial and Resource Management

*Please note on 1 August 2012 three of the five elements in this critical area of the Performance Improvement Framework were significantly upgraded. The three elements are *Asset Management*, *Improving Efficiency and Effectiveness*, and *Financial Management*. The upgrade affects comparability with previous reports. For more information on the revisions see: <http://www.ssc.govt.nz/pif-reports-announcements>.


The Lead reviewers noted that in seeking to substantially lift MfE's performance over the last four years, the ELT had consciously chosen to prioritise attention to other parts of the business and had relatively recently started to improve some of its core administration systems and processes. This prioritisation appeared appropriate given the scale of change required.


Asset Management* How does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery and drive performance improvement over time?	
PERFORMANCE RATING 	Performance Rating: <i>Needing development</i>
	<p>MfE has approximately \$6 million in physical assets, primarily in plant and equipment and intangibles on balance sheet; these include its IT systems, which it is planning to outsource.</p> <p>MfE monitors significant off-balance sheet exposures, some of which can potentially make material variations to the Crown accounts. There is approximately \$1.5 billion of Non-departmental Other Expenditure for allocation of New Zealand units for climate change. Material movements can occur in the units and their value from remeasuring or revaluing units for Crown liability under the Kyoto protocol and ETS. The accounting systems and processes for identifying changes to Crown ETS exposures is well developed at MfE, as is monthly notification to the Treasury and there is a feedback loop arising from these into MfE climate change policy work. Despite the size of these off-balance sheet exposures, there appears to be little visibility or governance oversight of the associated risks within MfE.</p> <p>Approximately \$30 million has been allocated for LUCAS (the land use and carbon analysis system) to develop the national carbon accounting system to meet New Zealand's international greenhouse gas protocol commitments.</p> <p>MfE also monitors other Non-Departmental Expenditure, specifically funds of approximately \$10 million for contaminated site remediation and environment recovery, \$35 million for designated river and lake clean ups (Waikato, Taupo, Hawke's Bay, Rotorua) and \$30 million for waste minimisation. As referred to in the <i>Implementation of Legislation</i> section, MfE has identified that it needs to review the intervention logic for all of these funds to determine whether there is value for money in the way these are deployed.</p> <p style="text-align: right;">Contd...</p>

	<p>To improve performance MfE should:</p> <ul style="list-style-type: none"> • complete the value-for-money reviews for funds as referred to in the <i>Implementation of Legislation</i> section • ensure there is joined up governance oversight of potential ETS variations, as referred to in the <i>Adjusting the Emissions Trading Scheme</i> section.
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Information Management

How well does the agency utilise information & communications technologies to improve service delivery?


<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p> <p>MfE's IT systems are currently centred around very good climate change reporting systems, for which MfE has now moved to an open access model. Otherwise MfE's IT has low maturity and MfE has been late to appreciate that information and communications technologies (ICT) can be a key enabler, although the intranet is well used internally and there is a current project to make information on the MfE website more accessible.</p> <p>As MfE has limited capability to develop its IT, and appreciating that the value is in the data not the IT systems that deliver it, MfE has decided to outsource most of its IT operations, including LUCAS, so it can focus on information utility. MfE does not produce a lot of data but its work is heavily reliant on it. There are many staff who gather data but currently few who can interpret data, then translate it for wider use, including by non-scientific users. Correcting this imbalance is reflected in MfE's new information strategy, although we question whether this goes far or fast enough, given the data concerns raised in this Review (refer <i>Freshwater Management</i>, <i>Resource Management</i>, and <i>Environmental Information and Reporting</i> sections).</p> <p>The information systems strategic plan (ISSP) also seeks to take a more strategic approach to IT, including developing NRS shared services and alignment with all-of-government IT strategy. This will assist MfE lift the consistency and quality of data, which is currently acknowledged as poor. Given how critical good data is to robust analysis and informed decisions, this is an area in which MfE needs to play a significant role.</p> <p>To improve performance MfE needs to focus on:</p> <ul style="list-style-type: none"> • ensuring it is capturing the most useful data for environmental management purposes • lifting data quality, consistency, analysis and user-friendly communication • identifying how IT can efficiently facilitate each of those activities above, such as the use of online, open-access, standard templates for recording eg, water quality and appropriate RMA information, as well as open-access platforms for accessing significant data held in central government agencies.
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Improving Efficiency and Effectiveness* How robust are the processes in place to identify and make efficiency improvements? How well does the agency evaluate service delivery options?	
PERFORMANCE RATING 	<p>Performance Rating: Needing development</p> <p>MfE has had a number of reviews in the past three years that have contributed to more efficient processes and more effective delivery of outputs. These include reviews for value for money, the MfE restructure, the baseline funding review and review of the following functions: Finance, IT, communications, policy, administration and support. MfE now uses a number of shared services and all-of-government supply contracts. It has made improvements to processes for travel, procurement, project management, recruitment, induction, performance management, legal, business planning and reporting. MfE should have confidence in what it has built to date and could consider moving to principle-based processes rather than prescriptive rules, which can often include unnecessary steps.</p> <p>Key BASS indicators show costs in back office, finance and ICT are below or at the median of peers, with property, HR and CEO's office above and procurement significantly above the median. MfE has addressed Management Practice Indicators and costs for all these areas, which generally show a positive downward trend in cost ratios. These Indicators show there is room for improvement in communications, ICT and, particularly, property management.</p> <p>While reviews have been done in the past, efficiency and effectiveness, along with high performance, are not well used vocabulary within MfE. There are no current systems to measure efficiency, although initial steps are being taken to address this by the introduction of timesheets and much improved business planning. Staff also note that processes for better commissioning of work has helped improve efficiency, as has clarifying what value is being added from senior signoffs. There is still an emphasis on processes or reworks as part of quality assurance, though as good project management disciplines are embedded it should be possible to improve the quality of work produced 'first time' and reduce the amount of time spent on quality review and rework.</p> <p>Sub-optimal prioritisation of some work (refer <i>Implementation of Legislation</i> section) will continue until robust business planning processes are bedded down and the long-term strategy and analytical framework are in place to guide where work needs to be prioritised. Finally, reviews of intervention logic will also deliver gains in efficiency and effectiveness.</p> <p style="text-align: right;">Contd...</p>

	<p>To improve performance MfE should:</p> <ul style="list-style-type: none"> • ensure focus on efficiency and effectiveness become part of the continuous improvement culture • schedule timely post-implementation reviews of restructured areas and new processes to ensure the changes are delivering the intended results and to assess what else can be improved • apply explicit intervention logic to all work programmes so everyone is clear about the objectives and focused on the most efficient and effective way of delivering results.
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Financial Management*


How well does the agency plan, direct and control financial resources to drive efficient and effective output delivery?

PERFORMANCE RATING 	Performance Rating: Needing development
	<p>MfE's focus has been on developing people capability and culture over the past four years, with more limited investment in improving fundamental business support systems and processes. Financial systems were little more than an accounts payable system, with very poor budgeting and business planning. Recent reviews of business support services have included upgrades to the finance and business planning processes. Time recording has been introduced as a precursor to gathering data for efficiency assessments and proper cost recovery for some levies. Business planning has been streamlined, which should result in better and more consistent use of appropriate budgets and a reduction in excessive use of consultants, who tended to be engaged as a result of poor planning.</p> <p>Current Audit New Zealand ESCO ratings for financial and management control environment and service performance are all rated 'Good'. However, financial management has been focused at the transactional level and financial management information has been poor. Improvements in this area, which are well under way, will provide good management information to facilitate better decision-making.</p> <p>Business planning is now being driven off external accountability requirements for delivering impacts and contributing to desired system outcomes. There needs to be recognition that this bottom-up approach, while a necessary step, will not drive MfE to deploy the right resources against the right short and long-term priority work in the absence of a long-term strategy and analytical framework.</p> <p style="text-align: right;">Contd...</p>

	<p>To improve performance in this area MfE needs to:</p> <ul style="list-style-type: none"> • use the long-term strategy and analytical framework (see <i>Purpose, Vision and Strategy</i> section) as the basis for determining prioritisation of business planning, budgeting and resource planning and allocation • ensure managers have timely and accurate financial management and key performance indicator (KPI) information to assist them to assess where they may not be delivering against the plan.
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Risk Management

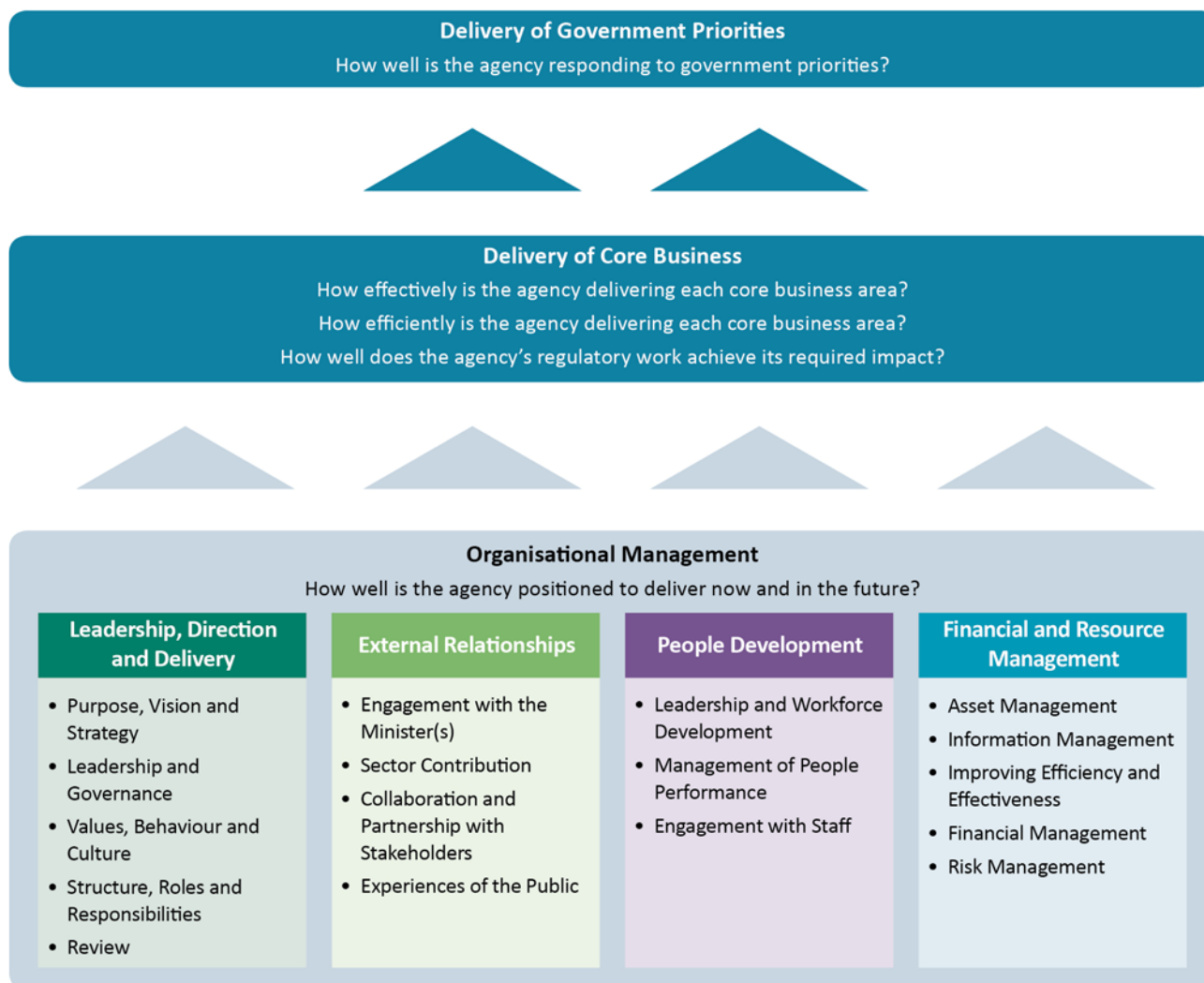
How well does the agency manage its risks and risks to the Crown?

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p> <p>ELT discusses risks to achieving strategic priorities every six months, and updates its Strategic Risk Profile annually. However, there are still significant gaps, such as in thought leadership capability, in addressing the key risk that will help it deliver its impacts. Without a long-term strategy and associated analytical framework it is difficult to see how MfE could have a good handle on New Zealand's environmental risks, including opportunity costs and mitigations and therefore on strategic and operational risks for MfE.</p> <p>An Audit and Risk Committee (ARC), with independent members, oversees MfE's risk monitoring activities. However, MfE agrees that the management of operational risks is not best practice and not well reported to ELT. This also extends to risks arising from managing and monitoring Non-Departmental Other Expenditure, as well as risks arising from policy advice such as implementation risks. Risk management sits with the Internal Audit function, which may make it difficult for Internal Audit to review the adequacy of MfE's risk management process. We have commented on the lack of governance oversight of risks associated with significant off-balance sheet exposures to the Crown. MfE also notes that it needs to address weaknesses in its disaster recovery plan.</p> <p>MfE does not have a clear understanding of its risk appetite, with many external stakeholders calling for it to be bolder in policy recommendations for improving economic performance in an environmentally sustainable way.</p> <p>A way to drive appropriate levels of risk awareness, mitigation and management is for ELT to investigate key strategic risks at regular intervals (perhaps one strategic risk each month or every two months). It would be useful to involve business owners to ensure ELT has clear line of sight on how strategic risks cascade down into operational risks and their mitigation. Importantly, this can help drive culture change and demonstrate the commitment of the organisation to using the risk management function to drive improved performance in the business at regular intervals.</p> <p style="text-align: right;">Contd...</p>
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	<p>To improve performance MfE should:</p> <ul style="list-style-type: none"> • use the long-term environment strategy as the basis for identifying strategic and operational risks to delivering appropriate impacts and monitor, assess and review these on a timely basis • widen governance oversight of risk management by ELT by periodically investigating particular strategic risks and their mitigation with relevant business owners • adopt best practice risk management policy and procedures and ensure specific mitigation actions are captured in staff performance expectations • ensure ARC oversight and reporting on contingent exposures, including consideration of forecast sensitivities • communicate environmental risks, tradeoffs and mitigations to a wider group of stakeholders, including the public.
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APPENDIX A

Overview of the Model



Lead Questions

Results

Critical Area	Lead Questions
Government Priorities	1. How well is the agency responding to government priorities?
Core Business	2. How effectively is the agency delivering each core business area? 3. How efficiently is the agency delivering each core business area? 4. How well does the agency's regulatory work achieve its required impact?

Organisational Management

Critical Area	Element	Lead Questions
Leadership, Direction and Delivery	Purpose, Vision and Strategy	5. How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? 6. How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?
	Leadership and Governance	7. How well does the senior team provide collective leadership and direction to the agency? 8. How well does the Board lead the Crown entity? (For Crown entities only)
	Values, Behaviour and Culture	9. How well does the agency develop and promote the organisational values, behaviours and culture it needs to support its strategic direction?
	Structure, Roles and Responsibilities	10. How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business? 11. How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?
	Review	12. How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?
External Relationships	Engagement with the Minister(s)	13. How well does the agency provide advice and services to its Minister(s)?
	Sector Contribution	14. How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector?
	Collaboration and Partnerships with Stakeholders	15. How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?
	Experiences of the Public	16. How well does the agency meet the public's expectations of service delivery quality and trust?
People Development	Leadership and Workforce Development	17. How well does the agency develop its workforce (including its leadership)? 18. How well does the agency anticipate and respond to future capability requirements?
	Management of People Performance	19. How well does the agency encourage high performance and continuous improvement among its workforce? 20. How well does the agency deal with poor or inadequate performance?
	Engagement with Staff	21. How well does the agency manage its employee relations? 22. How well does the agency develop and maintain a diverse, highly committed and engaged workforce?
Financial and Resource Management	Asset Management	23. How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery and drive performance improvement over time?
	Information Management	24. How well does the agency utilise information and communications technologies to improve service delivery?
	Improving Efficiency and Effectiveness	25. How robust are the processes in place to identify and make efficiency improvements? 26. How well does the agency evaluate service delivery options?
	Financial Management	27. How well does the agency plan, direct and control financial resources to drive efficient and effective output delivery?
	Risk Management	28. How well does the agency manage its risks and risks to the Crown?

APPENDIX B

List of Interviews

This PIF Review was informed by input provided by a number of MfE staff, relevant Ministers, and by representatives from the following businesses, organisations and agencies.

Agency/Organisation
Auckland Council
Bay of Plenty Regional Council
Business New Zealand
Canterbury Earthquake Recovery Authority
Contact Energy
Dairy New Zealand
Department of Conservation
Department of Internal Affairs
Department of the Prime Minister and Cabinet
EcoMatters Environment Trust
Environment Canterbury
Environmental Defence Society
Environmental Protection Authority
Federated Farmers
Fish and Game (Nelson Region)
Holcim (New Zealand) Ltd
Institute of Professional Engineers
Land Information New Zealand
Land and Water Forum
Landcare Research
Local Government New Zealand
Meridian Energy Limited
Ministry for Primary Industries
Ministry of Business, Innovation and Employment
Ministry of Foreign Affairs and Trade
National Institute of Water and Atmospheric Research
New Zealand Institute of Surveyors
New Zealand Landcare Trust
New Zealand Planning Institute
Office of the Parliamentary Commissioner for the Environment
Petroleum Exploration and Production Association NZ

Agency/Organisation
Public Service Association
Resource Management Law Association
Royal Forest and Bird Protection Society of New Zealand Inc.
Seafood New Zealand
State Services Commission
Te Arawa Lakes Trust
Te Puni Kōkiri
Te Rūnanga O Ngāi Tahu
The Treasury
U.S. Department of State
Waikato River Authority
Waste Management Institute of New Zealand

APPENDIX C

Glossary

BASS	Better Administrative and Support Services
CEEF	Chief Executives Environment Forum (central and regional government)
COBRA	Cost Opportunity Benefit Risk Analysis (internal guide for policy development)
DoC	Department of Conservation
EEZ	Exclusive Economic Zone
ELT	Environment Leadership Team (Chief Executive and Deputy Secretaries)
EPA	Environmental Protection Authority
ERMA	Environmental Risk Management Authority (merged into the EPA)
ESCO	Environment, systems and controls for measuring financial and service performance – annual rating reported by Audit New Zealand
ETS	New Zealand Emissions Trading Scheme
HSNO	Hazardous Substances and New Organisms
HSNO Act	Hazardous Substances and New Organisms Act 1996
ICT	Information and communications technology
ISSP	Information Systems Strategic Plan
IT	Information technology
LUCAS	Land Use and Carbon Analysis System
MBIE	Ministry of Business, Innovation and Employment
MFAT	Ministry of Foreign Affairs and Trade
MfE	Ministry for the Environment
MPI	Ministry for Primary Industries
NES	National Environmental Standard
NPS	National Policy Statement
NRS	Natural Resources Sector (selected core government agencies with economic and environmental responsibilities)
PSA	Public Service Association
RMA	Resource Management Act 1991