

OCCASIONAL PAPER

No. 11

***Improving Accountability:  
Developing an Integrated  
Performance System***



**STATE SERVICES  
COMMISSION**

**Te Komihana  
O Ngā Tari Kāwanatanga**

*This paper was prepared as part of the State Services Commission's "Improving Accountability" project, and outlines the recently developed "Integrated Performance System" (IPS). The key "problem areas" identified (outlined in Occasional Paper No.10): complexity and duplication; information gaps; and drivers of behaviour, have been integral in developing an improved accountability system for the New Zealand Public Service.*

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## Introduction

This paper outlines a proposal developed as part of the State Services Commission's (SSC) *Improving Accountability* project to make improvements to the accountability system. The *Integrated Performance System* (IPS) would replace some current accountability documents with a revised and integrated ex-ante document – the *Performance Forecast* – matched to a revised and integrated ex-post document – the *Performance Report*. The documents are the visible products arising from the performance management and accountability systems within a framework of an integrated performance system. They represent substantial internal planning processes and dialogue with stakeholders concerned with departmental performance.

This revised system is based on an analysis of the current accountability system outlined in Occasional Paper No. 10 *Improving Accountability: Setting the Scene*. That analysis revealed three key themes that together explain the major presenting problems with the current system. These are:

- complexity and duplication (of accountability documents, information and processes);
- information gaps (stakeholders often do not receive the right information to enable them to play their designated role in the accountability system); and
- drivers of behaviour (the system encourages compliance rather than performance behaviour).

The IPS will not solve all of these problems. The key purpose is to streamline and integrate accountability documents and address some information gaps. In doing so, the IPS provides a solid platform to address remaining information problems. It will, for example, provide an entry point for the implementation of an independent assessment of the capability of departments. It will also serve to further highlight issues related to behavioural incentives (Ministerial, central agency and departmental) that require further analysis. The proposal represents a further evolution of the accountability system. It builds on good practice already operating in high performing departments, and allows enough flexibility to avoid a one-size-fits-all solution to departmental planning and operations. It should therefore release, rather than stifle, innovation and high performance.<sup>1</sup>

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<sup>1</sup> The authors acknowledge that many of the concerns with the current accountability arrangements have emerged as the system has evolved. It will be necessary to guard against such unintended consequences with the current proposal; hence the intention to pilot the proposal.

## **The integrated performance system: an overview**

The Integrated Performance System consists of three components:

- an integrated performance planning (IPP) process, which is underpinned by:
- the production of an ex-ante performance forecast (PF); and
- the production of an ex-post performance report (PR).

This section outlines the generic objectives of each component. However, it is envisaged that in practice departments will develop processes that are appropriate to the specific nature of their business.

### ***Integrated performance planning***

At the centre of the revised system is the IPP process. IPP balances purchase intentions with ownership investment, and integrates financial and performance information. It provides direction to guide the ongoing business decisions of the organisation.

IPP is the process that occurs within the department, and between the department and stakeholders (Ministers, other related departments, clients), to produce the PF. The planning process should occur at all levels of the organisation. It will link a department's internal planning with its external accountability and reporting requirements. The process will generate the information needed for the efficient and effective day-to-day management of the department, and information required for external accountability and reporting purposes (i.e. required by central agencies, Ministers and Parliament to enable them to monitor and assess the performance of the department). Significantly, it will also identify and analyse issues related to the department's current and future capability to deliver the outputs and activities desired by Government.

IPP is akin to strategic business planning but differentiated from the term because:

- 'strategic' as a term is overused, meaning all things to all people. There is a need to distinguish between strategic from a whole-of-government perspective and strategic from an organisational perspective. Most departments conduct business that is not connected to the Government's strategic priorities, but that is vitally important and requires strategic management. Both aspects must be captured in planning processes;
- there are limits to the extent that Public Service departments can alter their strategies in the same fashion as private sector organisations can in their strategic business planning; and
- a limited type of strategic business plan (SBP), which does not reflect the model developed in the context of this project, is already in use for departments making capital bids. New terminology avoids confusion.

### ***Performance forecast***

An organisation's PF will be the principle record of the ex-ante agreement between the responsible Minister and the chief executive of the overall direction of the department. It articulates where the organisation is heading in the medium term (three to five years) and how it intends to get there. The PF will contain information about what the department will concentrate on in the next year (both internal management priorities and the relevant Government strategic priorities), its core ongoing business and its current and future capability. Consequently it will integrate, in one document, both ownership and purchase considerations.

The PF will replace the existing DFR, much of the chief executive's performance agreement and the focus on performance and capability. While the PF is annual, much of its longer-term forecasting will not need to be zero-based and reworked every year. The PF could also serve as a background document for select committees' examination of the Estimates.

In short, a PF will provide an integrated picture of the organisation, outlining:

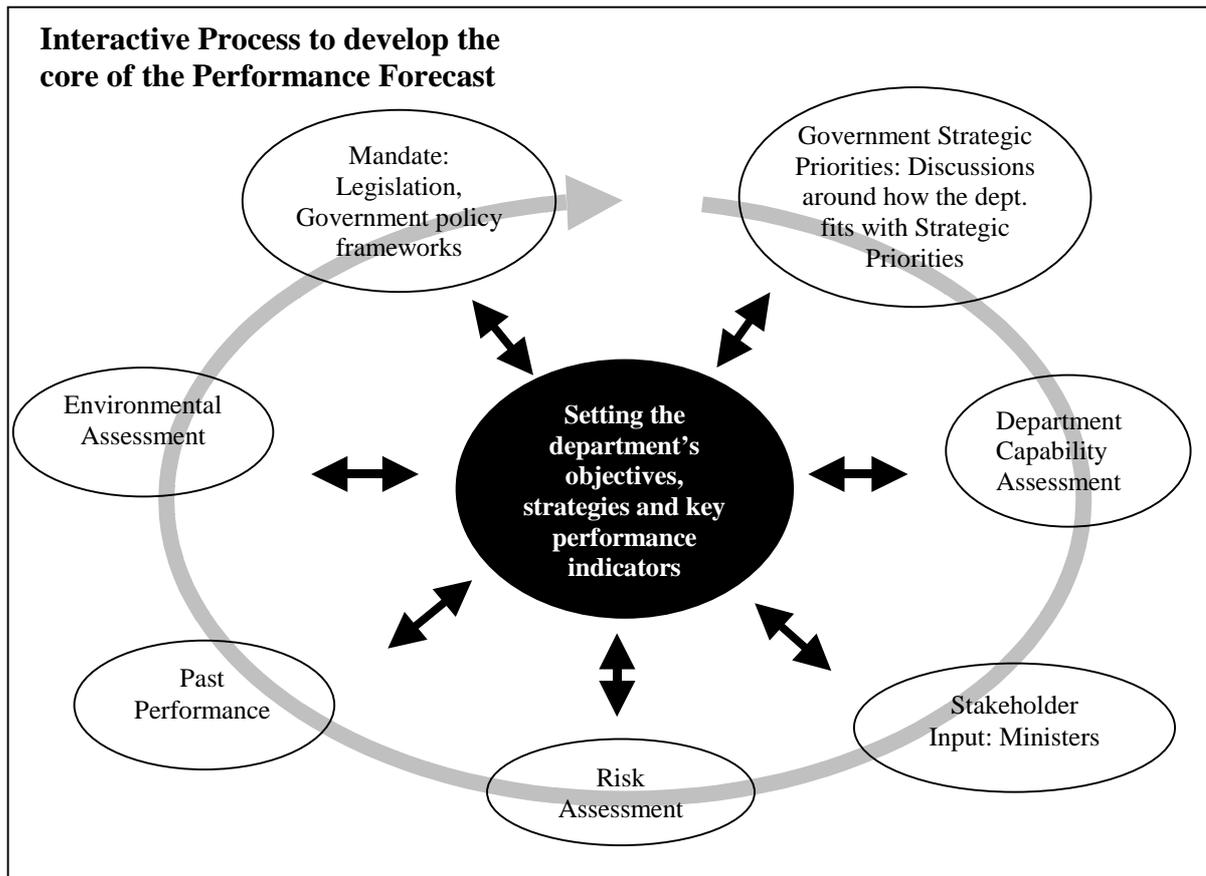
- its purpose;
- its functions;
- where it fits in the broader government context;
- how it will contribute to specific Government priorities;
- how it will undertake its functions; and
- how it will manage risk to the delivery of outputs and to current and future capability.

### ***Performance report***

At the end of the year, there will be an ex-post report that will focus on the areas identified in the PF and any reporting, on an exceptions basis, as deemed necessary. The end-of-year report – the PR – needs to be consistent with the current requirements for an annual report, which it would replace. The next stage of the project will address the exact nature and legal status of the ex-post report. This will require significant consultation with the Audit Office and other relevant stakeholders.

### ***Integrated performance planning process***

Preparing a PF requires the development of the organisation's objectives and priorities, and strategies to deliver on these. This necessitates a number of underpinning processes, which are depicted below:



These processes (further detailed in Appendix 1) occur throughout the year in different forms. The PF is derived from them. These processes are the most important element of the accountability system. They signify essential planning and managerial systems and processes that are ongoing, and that generate information and knowledge that can be used to adjust strategies as necessary and to improve future planning. They generate the information presented in the PF.

The timeframe for the processes associated with the integrated performance system must fit with government's overall budget and accountability cycle. Critical dates include:

- *September* – having a draft PF prepared for discussion with the relevant Minister prior to Premier House discussions. The draft would be based upon the current year's PF, with suggestions of alternative directions and strategies.
- *April* – having a final PF agreed in time to generate the accountability documents to fit budget requirements.

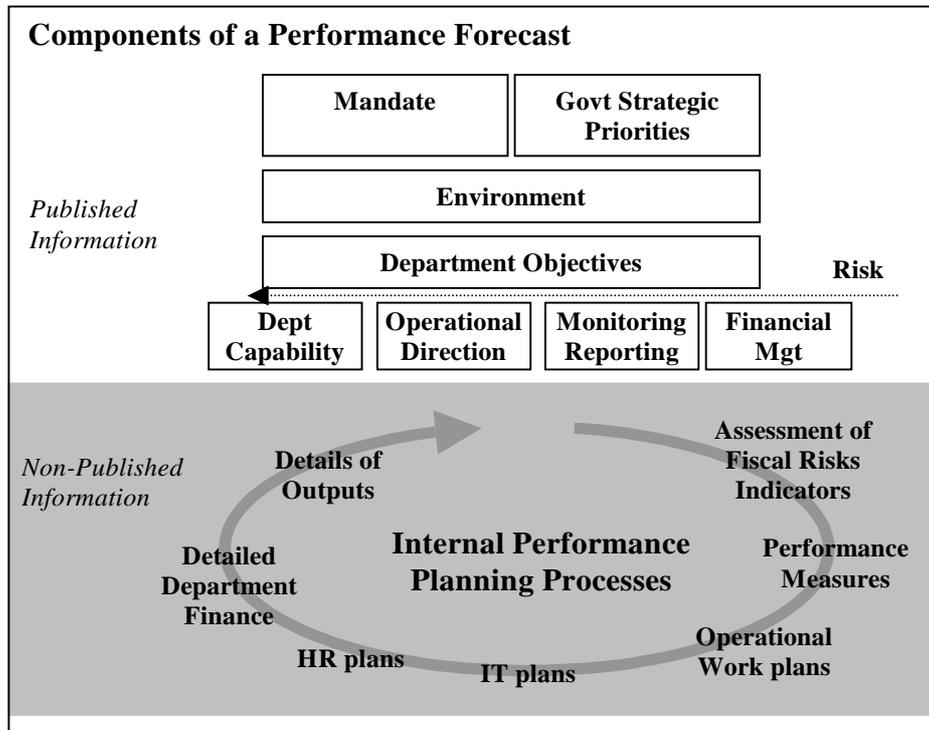
How the timing will work in practice is currently being explored, and will form an important part of the next steps of this project.

## The performance forecast: key components

Performance Forecasts (PF), while meeting a number of minimum requirements, will differ significantly between different sized departments and different types of departments. They will all have a medium term focus (three to five years) but with more detail for the coming year. A depiction of the generic components of a PF appears below.<sup>2</sup>

A distinction between published and non-published information is included in the diagram below. The PF is intended to be the public presentation of information about the department. However, a line will need to be drawn between what information produced from the integrated process is published and what is not. The Forecast is generated from an integration of internal management processes (some of which departments will wish to keep to themselves, and which, in any case, is not useful information for external stakeholders) and external reporting requirements. Where this line will be situated is as yet unclear, and its position will be based on further research on stakeholders' information needs.

The boundary between published and non-published information will, however, be guided by a set of minimum requirements based on existing precedents and the needs of the information users. It will not alter the nature of existing accountability relationships.



<sup>2</sup> What departments produce within the components will differ between departments, depending, for example, on the complexity and size of their business.

The contents of a PF are likely to include:

- *department mandate and role* – a description of the setting for the organisation in terms of its mandate, its core business and functions, the Government's policies and the Government's priorities. The mandate may come from legislation and/or formal Government policy such as Cabinet decisions. This section may include the organisation's response to this in terms of its mission statement and statement of values. The purpose of this section is to make the organisation's operating parameters very clear. The performance forecast must cover matters inside these parameters. The inclusion of values statements can provide clarity to staff and others about the way the organisation is expected to operate. Such information provides a basis for making judgements about a department's integrity;
- *environmental assessment* – key points from the assessment of critical environmental factors and stakeholder requirements. Including this material means that the organisation has gone through a process of considering important external factors in determining its direction, and allows people to see what these factors are. Interaction with other departments or providers may be identified here and strategies to deal with this interaction outlined in the section titled operational direction;
- *department objectives* – the department's objectives and priorities, with reference to why these have been selected. Including this material indicates that the organisation has undertaken priority setting and has a rationale for the directions chosen. These would be in the form of a limited number of clearly articulated objectives similar to the way key result areas are currently presented. Stakeholders (such as central agencies, other providers and Ministers) and others can assess these and provide feedback in the draft stages. This section, along with the strategies section and the key performance indicators, would be used for driving the reporting, evaluation and monitoring systems. Strategies will be outlined on how the organisation's objectives will be met. This may include clear linkages to outputs, specific areas of work or particular work programmes;
- *monitoring and reporting* – the department's objectives should be supported by a selection of indicators that allow the department and other stakeholders to assess how successfully it is achieving its objectives and how well it is positioned to operate in the future. Many departments are currently using or developing performance indicators. This section of the PF will set out details of what areas will be monitored and how they will be reported. This may include performance criteria for activities or output classes critical to the department's business, including information about the quantity, quality, delivery times and cost;
- *capability assurance* – this will provide an overview of the results of the capability assurance process. It may indicate particular areas of development or focus to provide assurance that the department has the capability to achieve its objectives;

- *operational direction* – the operational direction sets out the strategies for meeting the department's objectives. This may include an overview of the outputs to be produced and the activities the department will undertake, and an explanation of how these will contribute to the department's objectives. Some of this information will form the basis for the linkage of outputs to outcomes expected in the Estimates, and it will provide a context to understand the Schedule of Outputs;
- *risk* – information on areas and degree of risk and plans to manage these will be included throughout the PF as deemed appropriate; and
- *the forecast financial statements* – the PF will include the requirements under s.34a of the Public Finance Act 1989, for forecast financial statements. It will also establish parameters for expected financial performance as a basis for assessing actual performance.

### ***How the performance forecast affects current arrangements***

The PF will be the principle ex-ante accountability document between the chief executive/department and the Minister. It will record the ex-ante agreement between the Responsible Minister and chief executive regarding the overall direction of the organisation. Attached to it, as a schedule, will be a high-level summary of the purchase agreement signed by the chief executive and Vote Minister – which will reflect the department's objectives developed by the IPP. The PF establishes ex-ante what chief executives will report on ex-post in the PR.

Appendix 2 provides a more detailed depiction of how the PF will modify current flows of accountability information and documents.

### ***IPS/performance forecast and current ex-ante accountability documents***

The initial design work has shown that the following current ex-ante accountability documents will be affected<sup>3</sup> by the revised IPS system and related documents:

- *the Purchase Agreement* – departments will still need to produce a purchase agreement document that contains the current minimum level of information outlined in Cabinet Expenditure Control Committee Minute ECC (92) M50/2, and expanded in the Treasury publication *Purchase Agreement Guidelines*. We propose that a summary statement at the level of well specified outputs classes be attached to the PF as a *Schedule of Outputs to be Supplied*;
- *Chief Executive Performance Agreement (CEPA)* – the CEPA will become a personal contract between the Responsible Minister and chief executive detailing specific personal performance matters. The Standards Letter (attached by the Commissioner to a new CE's employment contract outlining generic standards of behaviour) will inform this agreement;

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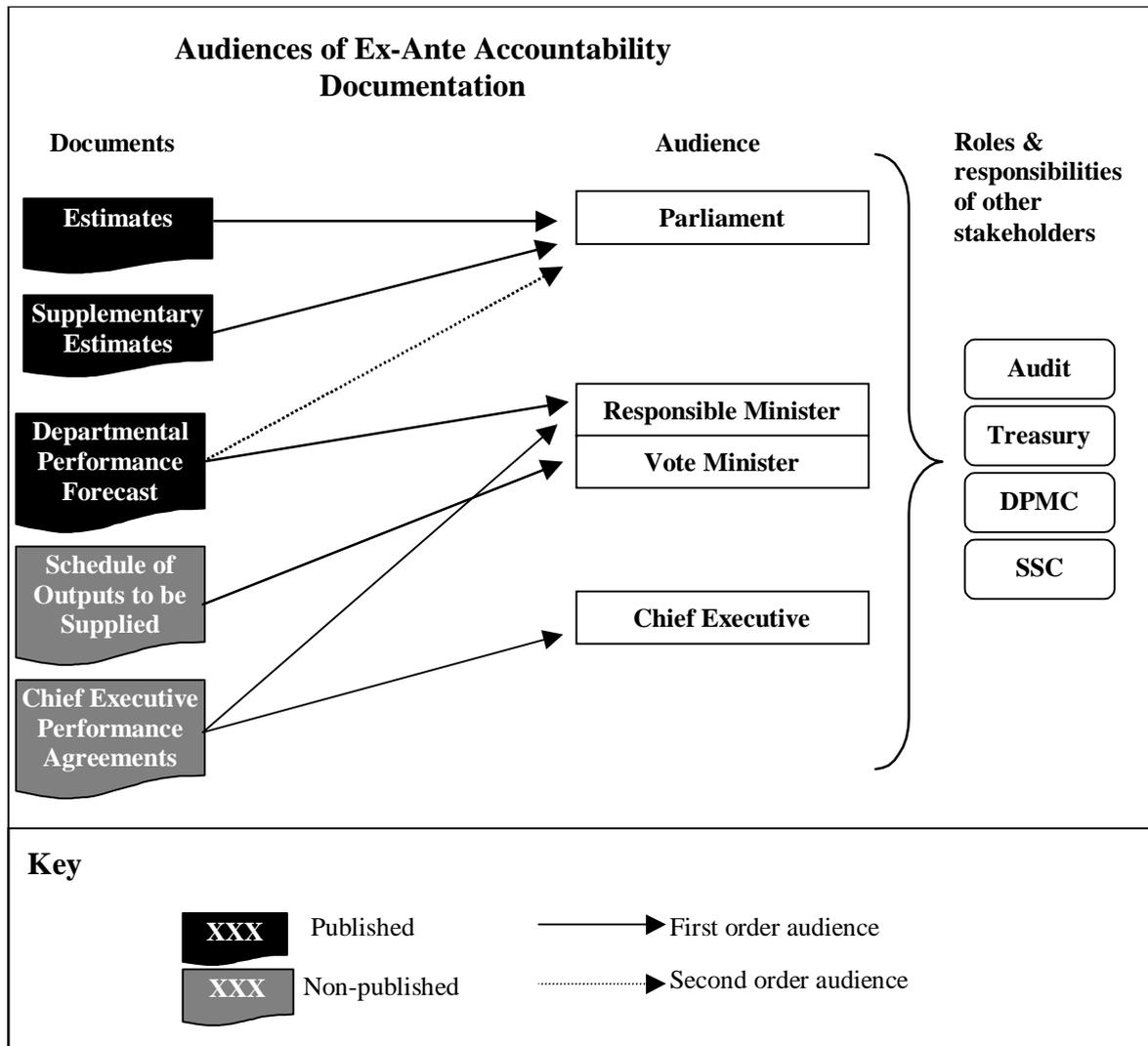
<sup>3</sup> It must be noted, however, that the practical implications of the proposed IPS need to be further explored, including discussions with relevant stakeholders such as select committees, Treasury, Audit, etc.

- *Strategic Business Plan (SBP)* – all information currently included in an SBP will already be captured in a department’s PF. Departments seeking capital injections will only have to make a specific business case. Given that contextual information – strategic direction, capability and core business – will be available on all departments in their PFs, Ministers will be better placed to make informed trade-offs between departments on the allocation of financial resources, including capital injections;
- *Departmental Forecast Report (DFR)* – the DFR will cease to exist. Instead, departments will be required to include in their PF the forecast financial statements of departments, as set out in section 34A of the Public Finance Act; and
- *Standard Estimates Questionnaire* – following the precedent set by the Finance and Expenditure Committee’s recommendation to abolish the Financial Review and incorporate the information in the Annual Report, the Standard Estimates Questionnaire will be abolished and the information will be incorporated in the PF.

The remaining ex-ante accountability documents – the Estimates of Appropriations and Supplementary Estimates – will initially remain in the current format and will maintain the same purpose. Future evolutionary work on the accountability system may, however, propose refinements.

***The performance forecast and companion ex-ante accountability documents and their audiences***

The PF will complement the existing accountability documents designed for and used by Parliament, Ministers and chief executives, as depicted below. The documentation also plays a critical part in facilitating how other stakeholders in the accountability system fulfil their roles and responsibilities. As already noted, the next steps for the project are to test the proposed documentation against the roles and responsibilities and related information needs of various stakeholders.



**Issues addressed by the integrated performance system**

The analysis undertaken by the *Improving Accountability* project (as outlined in Occasional Paper No. 10 *Improving Accountability: Setting the Scene*), identified three themes that together explain the major presenting concerns with the current accountability system:

- *complexity and duplication* – the current accountability system is highly complex, as a result of incremental accretions over time. Information is duplicated, and internal planning and external reporting are poorly aligned. It is difficult for Ministers and Parliament to get an overview of the health and performance of a department. Rather than the accountability system adapting to the growing maturity of departments and their ability to self manage, the level of detail and control has grown;
- *information gaps* – important information is not captured in the formal documentation, despite information requirements added over the past few years. Current and future departmental capability is largely ignored, information related to strategic alignment is weak, core business is under

emphasised and performance indicators for non-financial information are lacking; and

- *drivers of behaviour* – the accountability system demotivates chief executives. Incentives for Ministers are to focus on short-term deliverables; central agencies do not always know the business of departments, and consequently rely on compliance reporting without using adequate judgement.

The PF will go some way to addressing complexity and duplication, and information gaps in the following ways, but does not explicitly address behavioural issues.

### ***Reducing complexity and duplication***

By incorporating in one process all internal planning requirements, corporate planners have indicated that it will be easier to align their internal management and operational information and planning with their external reporting requirements. A specific example where duplication occurs, and will begin to be addressed by the integrated approach suggested by the PF, is the current process for aligning the department's work to Government priorities. Information about this alignment is currently produced by several parallel processes and reproduced in:

- CEPAs: KRAs are included in the CEPA, and CE's may be charged with addressing a particular strategic objective beyond the KRAs;
- some SBPs;
- some DFRs: Departments are not required to include relevant contextual information, but many chose to include such material;
- some Estimates – departments are not required to include relevant contextual information, but many choose to include such material; and
- the Standard Estimates Questionnaire, where some departments may be asked what their core business is and how this links to Government's strategic priorities.

The proposed PF will capture this information in one place – department objectives – and by one process, which includes an analysis of what the Government's strategic priorities for the department are.

The PF will make it easier for Ministers, central agencies, Parliament and the general public to scrutinise what a department intends to do and how it proposes to do it. All relevant information will be contained in one document, which will provide a comprehensive picture of the organisation. With this information, other departments can also be compared to or contrasted with the reporting department.

As noted above, some departments publish information about how their activities contribute to Government priorities, and highlight the critical issues they face in the future. They include this information in their DFR and the Estimates. Some departments do not include such contextual information in these documents (and

indeed, they are not required to do so). Information related to their activities and the links to Government priorities is captured in KRAs, and 'critical issues' are included in the Standard Estimates Questionnaires. The PF proposes to standardise published information. All departments will produce a PF that will disclose, for example, how the department's work links to Government priorities (these will be included in department objectives) and the critical issues they face (the results of their environmental scan and department capability assessment).

All departments will use this document – the PF – as their principal ex-ante accountability document. It will be the driver of the department's business. This will reduce some of the current messiness generated by departments currently using different documents to drive their planning processes, but having to run other processes in parallel.

### *Addressing information gaps*

The analysis of formal accountability documentation identifies that:

- there is currently little information about organisation health, that is, its capability;
- little information is generated that cuts across portfolio boundaries;
- the core business of organisations is under-emphasised;
- there is little information about the operating environment; and
- there is a need for more work on key performance indicators.

The PF will address the lack of organisation capability information by reporting on the results of the departmental capability assessment. This is intended to provide a degree of assurance to Ministers and central agencies that the department has the capability to deliver on its objectives. The department also needs to demonstrate that it is planning how it will operate in the future.

The IPS can also be a platform to facilitate the development of cross-portfolio information. The process of departments undertaking an environmental assessment may start to address many cross-portfolio issues. Planning at the levels beyond the individual department will increase cooperation, shared objectives and strategies and increase the incentives for departments to cooperate. Future work is needed to explore the cross-portfolio potential of this initiative. At the very minimum, departments will need to take into consideration the activities and capabilities of other organisations whose business is related or can have an impact on the success of their own.

The departmental objectives envisaged for a PF will better describe the core business of a department. This will be further enhanced if the details of the outputs to be produced by the department are attached as a schedule. The use of objectives will also require more concerted effort on the development of key performance indicators. Obviously, such work will involve a number of stakeholders in the system and build upon current experience and developments in departments.

### ***Drivers of behaviour***

The IPP process does not directly address the key area of Ministerial accountability and incentives. For Ministers, there are few incentives to think strategically or to take a long-range perspective and to specify this in formal documentation. The revised accountability framework will not cure this. It will, however, provide information critical for political leadership. The analysis of risks and the incorporation of ownership matters in the purchase mix would allow greater opportunity for Ministers to understand their department's business and capability. A project to clarify the roles and responsibilities of Ministers will be undertaken in 1999/2000.

The focus of the IPP process on refining the documents and processes will better facilitate an improved accountability relationship between Ministers and chief executives. Streamlining documentation is a starting point. Facilitating certain processes may lead to some adjustments in behaviour. For example, introducing the results of an assessment of the capability of a department into formal documentation raises the profile of capability. Genuine performance forecasting and reporting will help to weaken the current emphasis on check-box compliance, and should facilitate richer and more realistic discussions about outputs, performance, and future directions.

However, some less than ideal behaviours will not be solved by the IPS, and indeed might pose a risk to its success. Further work is required to examine the role of central agencies in the accountability system, including addressing concerns that they do not understand the business of departments and hence operate in a one-size-fits-all control mode, thereby encouraging compliance behaviour in departments. Ongoing work will need to address how central agencies can act more as a support to departments and encourage innovation, while improving their ability to monitor and assess the performance of departments, and maintaining the fundamentals of democratic accountability. Both the SSC and the Treasury recognise that the behavioural incentives and disincentives generated by their relationships with departments are critical to the functioning of an effective performance management and accountability system.

## **Appendix 1: Processes underpinning a performance forecast**

### ***Determining the mandate, government policies and priorities, and budget indications***

- The department's mandate may be set out in legislation and/or government policy documents such as Cabinet decisions. The mandate sets out the rationale for the department and how it fits within the broad government context.

### ***Government strategic priorities***

- The department needs to assess how its work contributes (if appropriate) to the Government's strategic priorities, as currently expressed in *Goals and Priorities 1999-2002*. This process would include identifying priorities that require cooperation with other organisations.

### ***Environmental assessment***

- The organisation considers external factors that affect its mandate, policy settings, priorities, external demands, costs and other factors related to its role and ability to perform. This may include: new policy directions signalled by Government but not yet confirmed; trends in customer demands; economic forecasts and the effect on costs; technological changes; changes in society and cultural factors; legislative change; labour market adjustment; etc.

### ***Department capability assessment***

- Assessment of departmental capability needs to be undertaken against the current and future demands on, and directions for, the department. A gap analysis and strategies to close any capability gaps needs to be developed. Sometimes, the organisation's objectives and strategies will need to be modified because the organisation is not in a position to develop the capabilities required.

### ***Past performance***

- This involves reviewing current operational and strategic plans, assessing past performance and drawing on evaluations of past interventions.

### ***Stakeholder inputs***

- The Minister(s) and their agents can play a valuable role by getting involved, at a high level, early on in the strategic planning process. This gives the organisation an opportunity to understand Government priorities, and can help Ministers better understand capability issues – for example, the timeframes and resources required to support major policy changes. The useful engagement of the Minister(s) should help the organisation to produce a draft plan that is acceptable to the Minister(s) and reflects their responsibility for the department.

- Other stakeholders include major customer groups (if these exist), interest groups and other government agencies. Their involvement will help the organisation develop effective plans to meet legitimate expectations within a process that considers resources and priorities. Joint planning prior to the commitment of resources would facilitate cross-agency work, which is required by many of the strategic priorities. Each organisation can use the process to 'negotiate' with stakeholders and modify their expectations where necessary. The engagement of stakeholders should help to develop good on-going relationships.

### ***Risk assessment***

- Risk assessment processes should form a part of all processes. For example, in the environmental assessment process, external risks should be identified and strategies developed to manage high-probability risk.

### ***Setting the organisation's objectives, priorities, strategies and key performance indicators***

- This process is conducted using information generated from the processes set out above. It is an assessment and prioritisation process that links planned work to the organisation's ability to carry it out. Capability assessment, financial projections and risk assessments are critical parts of this work.

## Appendix 2: IPP/PF and current ex-ante accountability information requirements

The chart below illustrates how the IPP/Performance Forecast will capture current information requirements and how the nature of the information captured will be modified.

Current information requirements	Why information captured	Currently required by/ captured in	Where captured in proposed PF	Why captured in proposed PF	How captured in proposed PF
How the dept's work is linked to Govt's priorities.	To ensure departments do not unnecessarily duplicate effort, and traction towards achieving Govt's priorities occurs.	KRA process; some DFRs; CEPA; some SBPs; SSC Expectations letter; some Estimates; and Standard Estimates Questionnaires.	Government's strategic priorities; and department objectives.	To ensure departments do not unnecessarily duplicate effort, and traction towards achieving Govt's priorities occurs	In determining the dept's objectives, one stage involves assessing how its work contributes to Govt's strategic priorities.
What the critical strategic issues facing the dept are.	Assurance that dept's have considered the critical strategic issues facing them.	Standard Estimates Questionnaires; Expectations letter 1998/9; some DFRs; some CEPAs; and some Estimates.	Environment scan; department capability assessment; and department objectives.	The critical external and internal strategic issues identified will become key objectives.	In determining the dept's objectives, one stage involves scanning the dept's external environment and internal capability.
What significant changes are occurring with the dept's Vote.	Assurance that dept's have considered relevant trends/ changes that will affect the Vote in the coming year.	Standard Estimates Questionnaires.	Environment scan.	The critical external issues identified will inform department objectives.	In determining the dept's objectives, one stage involves scanning the dept's external environment.
How dept's intend to monitor, report and evaluate their work.	Assurance dept's have mechanisms for monitoring, reporting and evaluating their work.	Standard Estimates Questionnaires; SSC Expectations letter; and Purchase Agreement	Monitoring and reporting.  Dept objectives underpinned by key performance indicators.	Contextual information about the dept's operations; clarity about the dept's monitoring and reporting regime.	Depts will develop internal monitoring and reporting as part of their internal management practice.
What the Vote Minister is purchasing from the dept.	Contract between Minister and CE is clearly defined on the basis of ex-post CE/dept performance assessment .	Purchase Agreement.	Captured at a high level (output class) in a Schedule of Outputs to be supplied.	Contract between Minister and CE is clearly defined on the basis of ex post CE/dept performance assessment.	Derived from the Purchase Agreement.

<b>Current information requirements</b>	<b>Why information captured</b>	<b>Currently required by/ captured in</b>	<b>Where captured in proposed PF</b>	<b>Why captured in proposed PF</b>	<b>How captured in proposed PF</b>
What the Minister expects of the CE personally.	Basis of ex-post CE performance assessment.	CEPA; and SSC Expectations letter.	N/A	N/A	Not included in PF. Personal agreement.
How the Government's ownership interest will be maintained.	Assurance that the Govt's ownership interest is being considered and maintained.	Some KRAs (ownership) CEPA; DFR; and SBP.	Department capability assessment; department objectives; and summary of dept's financial mgt plans.	Assurance that the Government's ownership interest is being considered and maintained.	Determining the dept's objectives will include the results of a capability assessment.
The standards of financial management performance the Minister expects of the CE.	Define depts expected financial performance for the year so as to provide a basis for ex post performance assessment.	DFR; and Treasury Expectations letter.	Summary of dept's Financial Management Plans (to the standard that meets s34a PFA).	Define dept's expected financial performance for the year to provide a basis for ex-post performance assessment. Public contextual information about the dept's operations.	Information as required by s34A of the PFA.
The standards of non financial management performance the Minister expects of the CE.	Define the dept's expected non-financial performance for the year to provide a basis for ex-post performance assessment.	SSC Expectations letter; and some CEPAs.	High level summary of dept's operation plans.	Define dept's expected non-financial performance for the year so to provide a basis for ex-post performance assessment. Public contextual information about the dept's operations.	Inclusion of high level summary of internal operational management plans in Performance Forecast.