
PERFORMANCE IMPROVEMENT FRAMEWORK

Review of the Ministry of Business, Innovation and Employment (MBIE)

DECEMBER 2014

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

**Performance Improvement Framework
Review: Ministry of Business, Innovation and Employment**

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

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Lead Reviewers' Acknowledgement

Our Review was undertaken in late January and early February 2014 and reflects our observations of the Ministry of Business, Innovation and Employment (MBIE) at that time.

As Lead Reviewers for this Performance Improvement Framework (PIF) Review we would like to acknowledge the thoughtful and generous input made by MBIE staff and the Senior Leadership Team (SLT). In addition, we had considerable input from a cross section of MBIE's external partners and stakeholders, who were equally committed to building stronger collaboration in the future. We also had the benefit of input from officials from the Department of the Prime Minister and Cabinet (DPMC), the State Services Commission (SSC) and the Treasury (Treasury).

MBIE is a large and diverse organisation operating as a policy advisor, regulator and delivery agency across a broad scope of economic activity. It is responsible for orchestrating the activities of a large number of Crown entities. It has not been possible for us to observe all of MBIE's activities in the time available for this Review. We are satisfied, however, that we have seen enough of what MBIE does and how it works to be confident in the themes we describe in the Four-year Excellence Horizon and the judgements we have made about how it rates in terms of its results and organisational management capability.

Conflicts of Interest

Given our past and current roles we all have interests that are relevant to MBIE's broad microeconomic mandate. We have each made standing declarations of interest as members of the Lead Reviewer panel and considered and disclosed any particular interests relevant to this Review. Having considered those interests, how they could be managed and the mix of experience and skills they thought appropriate for the conduct of this Review the SSC and the Chief Executive of MBIE jointly agreed that we should undertake this Review.

Dr Murray Horn participated in the PIF review of the Ministry of Economic Development (MED) in 2012. In early 2013 Paula Rebstock and Murray undertook a preliminary review of MBIE and produced an interim Four-year Excellence Horizon to assist the Chief Executive as he and his SLT built MBIE. Debbie Francis joined Murray and Paula for this Review bringing a new perspective.

Among her interests and of direct relevance to this Review, Paula Rebstock is currently the chair of the Accident Compensation Corporation (ACC) and is a past member and chair of the Commerce Commission (both Crown entities wholly or partly monitored by MBIE and in respect of which MBIE has policy responsibility).

Debbie Francis is a partner in PricewaterhouseCoopers. She has not directly undertaken any work with respect to MBIE but disclosed a number of matters her firm had dealt with, including work on the Immigration Vision 2015 Project.

Among his interests and of direct relevance to this Review Dr Horn is on the Board of Telecom New Zealand Limited (now Spark New Zealand Limited).

The Review was conducted so that for each of us the functions of MBIE that related to our declared interests were 'ring fenced'. Other Lead Reviewers conducted interviews on these topics, we did not comment on MBIE's performance or on the rating of the functions relevant to those interests. That said the judgements and ratings we have made are our shared view.

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AGENCY'S RESPONSE

Introduction

I would like to thank the Lead Reviewers, Debbie Francis, Dr Murray Horn and Paula Rebstock, for undertaking MBIE's PIF Review and also to thank everyone who has contributed to the Review.

MBIE was formed in July 2012, merging four legacy agencies to create a new organisation. Our objective was not only to undertake the functions of the existing agencies but also to use the reach and breadth of MBIE to deliver a greater positive impact on the economy than has been possible before.

In this Review, the Lead Reviewers highlight the level of expectations on MBIE and the size of the steps we need to take to meet those expectations.

Being clear about what MBIE stands for

Building on our Purpose (Growing New Zealand for All) and ambitious targets, we have completed the first iteration of our economic narrative.

We have developed the narrative with input from across MBIE, from partner agencies across government (particularly Treasury) and from stakeholders.

The narrative represents our diagnostic on the economy (drawing on New Zealand's economic history and on the experiences of other small, developed economies), addresses the various roles of government in supporting stronger economic performance and identifies areas where there is greatest potential for elements of the New Zealand economy to perform more strongly and where MBIE and government can make a significant difference.

Work on the narrative has required us to challenge our thinking both in constituent parts of the organisation and in relation to potential synergies across the organisation. Examples of the latter include pulling together an integrated view of the labour market and in bringing a more joined-up and purposeful approach to our work on international connectedness.

The Lead Reviewers rightly challenged us to move from a reactive mode (continuing the work programmes we inherited from our predecessors) to being proactive and influencing the forward agenda and priorities.

We have used the development of the economic narrative and our preparation to engage with incoming Ministers to achieve this transformation. In each of our areas of responsibility we have developed our thinking on where and how government can make the greatest difference to economic performance, and used this work to engage with incoming Ministers as we have helped them shape their priorities for the coming three years.

We have also used our position as co-lead, with Treasury, of the economic chief executives group to ensure that economic agencies as a group are giving joined-up advice to incoming Ministers.

Delivering on Ministers' priorities

We have continued to deliver against milestones for key government and ministerial priorities, including:

- a productive and competitive economy, co-leading with Treasury the Government's Business Growth Agenda (BGA), with regular reporting on progress against priority initiatives and development of a limited number of new priorities
- the Christchurch rebuild, bringing together an integrated view across the overall rebuild, the housing market and labour supply, with significant progress on specific initiatives to accelerate the delivery of affordable housing and of critical labour market skills and on a more joined-up approach to government procurement
- implementation of the National Science Challenges and publishing of a draft National Statement of Science Investments which, together, help shape a clear future direction for the system and a focus for enhanced performance
- significant further progress in implementing the Government's health and safety reforms, with WorkSafe established as an increasingly effective front-line regulator and with the system reforms ready for implementation subject to passing the necessary legislation
- marked acceleration in the rate of progress in tackling housing affordability and social housing reform, including through the Housing Accords and special Housing Areas, particularly in Auckland.

Improving our customers' experience

We have continued work to improve the quality of our customers' experience, and to lower the cost to serve. Examples include:

- significant progress on the transformation of our immigration business, with Student Online being launched in August and with further modules going live later this year and next
- progressing the rebuild of the Mangere refugee settlement centre, with contracts signed with the developer
- improving the technology and support for our contact centres – the critical first point of contact for many of our customers
- progressing work to modernise the bond processing system that underpins the housing rental market
- completion of the first of our regulatory systems' reviews, part of our 'living systems' approach, and enhancements to our support of the occupational regulation and disputes resolution regimes that we operate.

Better Public Services (BPS)

We have stepped up our contribution to BPS, through:

- building chief executive commitment to a shared roadmap for Result 9 (bringing a joined-up and customer-centric approach to government's interaction with business) and delivering on specific initiatives, such as New Zealand Business Number and a new online tool to help businesses understand their compliance obligations
- continued to support the Department of Internal Affairs (DIA) led Result 10 – notably through the launch of Student Online
- actively engaging in the SSC-led Talent Board process, including through leading the business-facing and natural resources Talent Board
- working with SSC and other agencies to shape a stepping-up in the effectiveness of central government's effectiveness in and in relation to Auckland
- achieving further gains in government procurement, recent highlights including our work with the Canterbury Earthquake Recovery Authority (CERA) and others in Christchurch, and through negotiating access to the World Trade Organisation Government Procurement Agreement (which will give New Zealand businesses significantly improved access to the procurements of all member governments)
- progressing innovative initiatives through the BPS Seed Fund, notably the innovation lab pilot recently launched in Auckland and work to transform the disputes resolution system in government.

Completing the transition

The Lead Reviewers emphasised the importance of moving beyond the transitional issues involved in merging four agencies into one. We have.

This has been a significant area of focus over the past nine months and we are now (November 2014) operating with integrated systems in all our key activity areas.

The integrated IT platform is performing well, with performance and security levels both continuing to improve.

We have a single financial and payroll system across the whole business, which is providing much better quality information to inform resource allocation choices and to help us tackle the significant fiscal challenges that we face now and in future years.

We have embarked on an HR transformation, which, if executed successfully, will improve the quality of support for our people, provide much better information for their development and deployment and reduce the cost of support, with our HR experts focusing on value-add rather than routine activities. We have made considerable progress towards simplifying employment relations, including through the negotiation of a single collective agreement with the Public Service Association.

We have developed our frameworks for identifying and mitigating enterprise-wide risk, and are investing in enhanced capability to support the right level of ongoing focus on risk and assurance.

The recent move to premises in Stout Street in Wellington has brought 1800 MBIE people together in the same site, in a building designed to support collaborative working. We are already seeing a difference in the extent of connectivity across the organisation – with a real and positive buzz to the place.

We still have much work to do to realise the full benefit of these integrated systems, but that is now our focus, rather than the integration itself.

Future direction and milestones

Notwithstanding the significant progress over the past nine months, delivering on our Four-year Excellence Horizon is hugely challenging and will require a sustained effort to enable success.

Our Four-year Plan, a draft for which will be completed by the end of November will provide a good basis for ourselves, our Ministers and the central agencies to assess whether we are making progress at the necessary rate.

Work is also under way on intermediate targets for MBIE, which we will have in place for the 2015/16 year. These are shorter term and more under MBIE's direct control than the 2025 Grow New Zealand for All measures. Putting these targets in place will allow us to better measure our progress in a more tangible way.

In addition to maintaining momentum in the areas already described, we have identified four particular focus areas.

Leadership

We are investing in the development of the leadership team.

More broadly, SLT will sponsor a programme to enhance leadership and engagement within the organisation. This will be in place by December 2014 and monitored on a 90-day cycle.

Our regular staff Engagement Surveys will track our progress and inform any adjustments we may need to make to our approach.

Implementing our refined business strategy and operating model

We will focus our resources on delivery of our highest priorities and on leveraging the benefits that an integrated MBIE can deliver.

We will implement the revised operating model and business strategy we have developed over the last few months, based on the economic narrative.

Within six months we will have a well established 90-day cycle of priority setting, review and focused action. This will include an agreed set of priorities with Ministers and partners for supporting better economic outcomes for Māori, housing and labour market policy.

Strengthening our engagement with stakeholders and building our brand

We will broaden and deepen our relationships with our partners and stakeholders. We are leveraging the information we have collected through our recent stakeholder survey and interactions to identify a small number of high impact focus areas for the next 12 months, including a structural programme of regional stakeholder engagements.

Within the next six months we will initiate two deep co-creations with our partners aimed at new solutions to long-standing challenges, utilising the recently launched Innovation Lab.

We will regularly survey stakeholders to confirm we are heading in the right direction and adapt our plans accordingly.

Being more business like

We will become an exemplar, in the way we do business, of the businesses that we are seeking to support.

Important milestones for us are:

- the benefits from the HR transformation will be realised towards the end of the 2015 financial year – a critical milestone, the HRIS system, will go live mid-2015
- having a more flexible set of arrangements for financial management in place by 1 July 2015.

Concluding comments

As an SLT and as a Ministry we are determined to deliver on the value promised through the creation of MBIE.

What we have achieved to date is significant and I would like to thank all our people for making it possible, helped by considerable support from our partners across the public sector and beyond.

But we know we have much more to do to deliver on our Four-year Excellence Horizon.

The PIF Review has highlighted the main elements of the challenge that lies ahead and has been central to shaping the next phase of our journey, to focus beyond transition and to set our eyes to the horizon and the job of growing New Zealand for the benefit of all New Zealanders.

David Smol
Chief Executive

FOUR-YEAR EXCELLENCE HORIZON

In undertaking this Performance Improvement Review we have considered: What is the contribution that New Zealand needs from MBIE and, therefore, what is the performance challenge? Our judgements are made against the standard that MBIE would need to meet if it was to be likely to be able to meet that performance challenge.

Overall we rated MBIE as ‘needing development’ as: its performance is adequate but there are concerns for future performance; it is beginning to focus on processes, repeatability, evaluation and improvement and management beyond and across its units; it recognises where it is underperforming and lacks capability; and has, and is implementing, strategies and plans to lift performance and respond to its deficiencies.

Recent context

MBIE was created in July 2012 from the merger of four significant departments. The Senior Leadership Team (SLT) was not appointed and on board until early 2013. The merger was a significant undertaking both logistically and in terms of building the systems, processes and behaviours that would position it to deliver on the expectations underpinning its creation.

Looking back, in the eighteen months leading up to this Review, in addition to its integration and organisation building activities, MBIE has delivered a big business-as-usual work programme, which is referred to in the Results section of this Report but which notably includes:

- a Implementing the response to the Royal Commission on the Pike River Coal Mine Tragedy, including establishing WorkSafe New Zealand, producing guidance on managing health and safety risks and providing advice on building a strong health and safety culture. More generally, MBIE also introduced new health and safety legislation to provide a balanced framework to secure the health and safety of workers and workplaces.
- b Supporting the Canterbury Earthquake recovery; assisting Canterbury councils to streamline consent procedures, providing technical input into District Plan Review processes, supporting the CERA Housing Recovery Programme to resolve rebuild issues, negotiating the Christchurch Housing Accord, helping develop sites for temporary and residential housing and developing technical engineering guidance for assessment and repair of multi-unit residential buildings and seismic design of residential retaining walls in Canterbury.
- c Developing the 2014/15 Tertiary Education Strategy with the Ministry of Education.
- d Reviewing KiwiSaver default provider arrangements and appointing KiwiSaver default providers. Improving the financial service provider registration rules and introducing new powers relating to the regulation of financial service providers.
- e Allocating \$2.4 million to help unlock the science and innovation potential of Māori knowledge, resources and people.
- f Delivering new social and affordable community housing units and awarding several grants schemes to support Māori housing.
- g Delivering a further \$22 million energy-related savings under the Government Procurement Reform Programme.

- h Allocating New Zealand business numbers (NZBNs) to registered companies and launching a new service integrating employer registration and company incorporation.
- i Awarding 112 petroleum and minerals permits.
- j Opening 20 visa application centres worldwide.

MBIE, its SLT and staff should be congratulated on what they have achieved over the past 18 months.

However, PIF uses a forward-looking standard that focuses on what more needs to be done to meet MBIE's performance challenges. Our judgements and observations need to be read with that future focus firmly in mind. MBIE inherited areas of weakness from each of its constituent agencies and needs to address those, as well as complete the merger and learn to capitalise on the synergies inherent in the new structure. While MBIE will continue to progress a significant work programme, and must complete the job of building the new organisation, there is an opportunity and need for SLT, in particular, to work on the refinement and implementation of its overall strategy and operating model.

The challenge is substantial. It is not surprising that most of the ratings in this Review suggest the need for further development. While recent achievements should provide some confidence in the Ministry's ability, meeting the challenges requires a broader set of capabilities.

Nothing in this Review should be read as a criticism of the logic for creating MBIE. Indeed, there was a real need for stronger leadership of the Government's microeconomic agenda and the creation of MBIE provides a better platform for that leadership role. This does not imply a larger or more activist role for government in markets, sectors, regions or firms, simply this role needs to be better defined and executed. MBIE plays a central role in helping government define that role, as well as in execution. This is especially important, given the sheer size and breadth of the influence government has on economic performance, as a regulator, an asset owner, a funder and purchaser and as a provider of goods and services. MBIE's responsibility covers this spectrum.

Finally, our judgements were made at a point in time (late January 2014) about 18 months after MBIE's establishment on 1 July 2012. There are a number of issues raised in the Review that MBIE plans to address during this calendar year. Many of the weaknesses in "Financial and Resource Management", for example, were planned to be addressed by the end of June. MBIE will also be working on a more proactive 'narrative' for its *Briefing for Incoming Ministers*. That should go some way to explaining MBIE's view on the right roles for government as regulator, funder and purchaser, owner and provider and how best to exercise those roles to meet the communities' broader interests.

Purpose

MBIE exists to *Grow New Zealand for All*. It was created to lead government efforts to promote this goal at the microeconomic level, ie, the level of the firm, sector, region and market.

Environment

While New Zealand's immediate prospects are encouraging, the longer-term picture is less heartening. An immediate issue is to ensure that supply bottlenecks do not translate into broad-based cost pressures that undermine the recovery. The longer-term task is to increase productivity and trend output growth so that much higher growth can be sustained. The Reserve Bank estimates that potential output growth has not yet recovered its pre-recession rate and stands at a little over 2%. Unless potential output growth improves, supply constraints will eventually limit future income growth to this sort of speed.

The longer-term demographic outlook is not helpful. Workforce growth is likely to slow from about 2020, so income growth will be more reliant on people working longer and smarter. With an ageing population, a relatively smaller taxpaying base will also struggle to keep up with the increased demands for health and pension spending. Fiscal restraint will be required for a prolonged period.

Economic growth and development are valued to the extent they serve the community's wider social, environmental and cultural values. The more confident the community is that these values will be protected and the benefits of growth fairly shared, the more predictable the business environment and the wider the social licence for business operation. The more conducive this environment, the more likely that business will, in turn, deliver the jobs and incomes necessary for the community to meet its aspirations.

Community concern across a range of issues in MBIE's patch – from immigration and foreign investment through to investor, employee and consumer protection through to development of the public's petroleum and mineral resources – needs to be addressed to give the certainty and license required for a substantial lift in income and job growth. Ministers have to strike the balance when goals conflict and have a central role in ensuring community concerns are addressed. MBIE needs to ensure that Ministers are well advised and that policy is well implemented. For example, community confidence in the ability of the regulatory regime to address the risks associated with growth and development has been shaken by events like finance company collapses, leaky homes and Pike River. And while different groups will have different interests when it comes to development, the contribution made by other agencies in helping government work with diverse interests in areas like soil and water management demonstrate what can be done with the right sort of community engagement supported by a well-led and coordinated official's process.

The external environment can also shift rapidly, requiring an ability to rethink approaches and priorities. The Canterbury earthquake and the rapid elevation of housing issues are obvious examples.

Looking internally, MBIE still has to fully integrate the processes and practices of its four constituent organisations, in some cases build new processes and practices and to really start exploiting the opportunities presented by the merger. There is a sense of frustration internally and externally. Internally, many things seem harder than they need to be and people are not yet confident that this will be addressed in a timely manner. Externally, the promise of stronger and more coherent leadership of the microeconomic agenda still seems some way off. MBIE recognises that it needs to put its federation phase behind it and make demonstrable progress addressing these frustrations and in realising that promise.

Performance Challenge – Outcomes

The creation of MBIE brings together a much broader scope of government activity with a much better chance of developing a clear and unifying approach to how government can help business generate a significant and sustainable lift in performance and ensure that the benefits of stronger growth are widely shared. This is MBIE's performance challenge.

The desired lift in New Zealand's growth capacity will inevitably be a matter for the wider community expressed through the political process. Recent Labour and National led governments have all expressed a desire for a step-change in trend economic performance. The current expression is contained in the BGA.

MBIE's Outcomes Framework reflects this broad community desire for a sustained and substantial improvement in economic performance. MBIE's top-line aim is to increase real average household incomes by 40% by 2025, supported by: a doubling of labour productivity; increasing exports to 40% of

GDP; unemployment below 4% and housing costs taking a lower share of total income. These goals recognise that the community is unlikely to support the actions required to generate significantly higher living standards unless the benefits are shared through jobs and an affordable place to live 'for all'.

These are demanding goals. They are, of necessity, set at the level of the whole economy. While many factors will bear on the ultimate achievement of these goals, defining the right role for government, and executing that role well, is a necessary condition for success. Setting ambitious goals clearly signals that business-as-usual will not be sufficient. MBIE will need to reflect that ambition in both the advice it provides Ministers and in the quality of its execution of the regulatory, ownership, purchase and provision roles governments ask it to play.

The goals are also longer term in nature. While this reflects the fact that success will take time, it also reflects the fact that MBIE must serve future governments, as well as the current Government. While MBIE must respond to the priorities of the government of the day, it needs to have its own view of what those priorities should be to provide Ministers with advice and to be in a position to advise future Ministers. By making these goals transparent in the Outcomes Framework it is easier to see what is shaping MBIE's view of those priorities.

Delivering these goals will require getting a number of things right:

- a MBIE will not be able to achieve these goals on its own. Its leadership will need to enlist those inside and outside MBIE necessary for successful delivery.
- b Internally, meeting these goals will also require MBIE to have a clearer sense of how it adds value in its various roles; an ability to identify what will make the greatest difference when; and then develop and manage capacity and capability to deliver those priorities. It also requires excellent delivery from the operational units that implement that policy: from MBIE's own operational units (like Immigration, NZ Petroleum and Minerals and in the delivery of better services) to the Crown entities that help enforce regulations, deliver science and innovation, promote New Zealand and help our exporters succeed.
- c MBIE will need to build public trust that it understands the risks associated with growth and development and that the regulatory functions it oversees are strong enough to ensure those risks are well managed. It will also need to play its part – in areas like regional and Māori development – to ensure that the costs and benefits of growth are fairly shared. In many areas these are prerequisites for further progress and, therefore, are issues that need to be addressed with real urgency.

All that will require a bold, inspiring and sometimes even directive leadership from MBIE's SLT. It also requires strong collective accountability for team outcomes, so accountability for MBIE delivering these collective outcomes has to always stand ahead of individual business unit accountabilities.

The performance challenge needs to be addressed across the full scope of MBIE's expanded mandate.

- a If international comparison tells us anything, it is that public policy matters a great deal. MBIE's policy leadership is critical. Markets only exist where government defines and enforces a tradable property right (which is why we have a market in land but not in water, for example). The quality of the regulatory environment impacts both the efficiency of markets and the confidence the community has that its broader social, environmental and social values will be protected. And only government can create the certainty and predictability in the legislative and regulatory environment necessary for business to flourish. The rules government sets need to be easy to comply with and difficult to avoid. Uncertainty about how rules should be applied or adapted needs to be resolved quickly and cheaply.

- b MBIE still needs to develop its approach to providing greater certainty. While MBIE should draw input and ideas from others, its leadership role gives it primary responsibility for developing the microeconomic framework that will guide policy development and implementation. That framework needs to be based on a clear logic of where and what sort of regulation adds most value, to expand the social license, as well as to improve market efficiency. While the current description of MBIE's intervention logic is a good start, this framework, the priorities it generates and the approach to regulatory development it describes, needs to be well articulated and communicated so that all those involved in the business community know where MBIE stands. More thought also needs to be given to how business can be better engaged in mitigating the risks associated with development, and communities engaged in how the costs and benefits of development should be shared. The certainty all of this helps to create is one of the most important contributions MBIE can make to growth. MBIE's approach is still very much a work in progress – albeit one that needs to be finished and clearly articulated to an in-coming government later this year.
- c MBIE also needs to enlist the support of others to improve the return on the public's substantial investment in education, skills development, science, innovation and internationalisation, as well as improving government services and making government easier to do business with. Progress in all these areas requires policy development to be much closer to those involved in implementation, as well as the development of a much more sophisticated Crown entity monitoring regime.
- d The areas described above will not, on their own, be sufficient to meet the ambitious goals in MBIE's Outcomes Framework. New Zealand is about to make a major construction investment and needs to substantially improve construction productivity and address affordable and social housing goals. The former to ensure that increased construction demand does not create cost pressures and resource contention that undermines export growth. The latter to help translate improvements in construction productivity into better social outcomes.
- e The Crown's petroleum and mineral resources present us with substantial and as yet unrealised export opportunities.
- f We also need to recognise that government is a big 'business' in its own right and the way it procures from, and partners with, private firms has a material impact on both the cost of government and on the opportunities to grow New Zealand firms. While business still has issues with the way the procurement framework is being applied, this is an area where MBIE is making real progress in developing its approach. MBIE's approach to procurement demonstrates an ability to develop an increasingly sophisticated view of how this traditional government activity can be much more effective at supporting growth. Moreover, MBIE is building the relationships and investing in the sector's capability to support a much more effective government procurement function.

And all of that will need to be done in an environment of ongoing fiscal restraint that requires ongoing improvements in MBIE's efficiency.

Meeting the challenge of a substantial and sustained lift in trend growth starts with identifying immediate opportunities that can make a substantial contribution and build confidence and momentum amongst stakeholders that the right sort of development is achievable. That process has to take account of where we are in the business cycle and prioritise activity that will make a difference in the short- as well as long-term.

Performance Challenge – Agency

To realise these opportunities, MBIE knows that it needs to put the merger to bed and to focus more on what it was created to do, to lead government’s microeconomic agenda.

MBIE has made a strong start with a clear purpose and a well defined set of balanced goals that support this purpose. However, there are a number of matters MBIE needs to address to provide confidence that it will succeed. It needs to:

- articulate a clear view of the micro-economy and of where government can add most value to that economy
- complete its business strategy and execute it with more deliberation and pace
- better define and build the operating model necessary to support its business strategy. MBIE will find it easier to engage with business if it is more business-like in the way it designs and executes its business strategy and operating model.

i Purpose, Targets and Business Strategy

The business strategy describes what MBIE needs to do to deliver on the goals it has clearly articulated in MBIE’s Outcomes Framework. MBIE needs to think about this strategy in terms of both:

- building its comparative advantage by developing a deep understanding of labour, firms, markets and sectors; especially an understanding of what is unique or unusual about the New Zealand situation
- developing a programme of core activity initiatives and a portfolio of transformative initiatives that meet the criteria necessary to deliver those goals and then actively manage those initiatives as a portfolio.

MBIE has started thinking in terms of portfolio management of its game-changing or transformative initiatives (the portfolio), however the approach needs to be more deliberate and the portfolio more actively managed. While MBIE has identified 11 priorities, along with two internally focused organisational priorities, they are still largely a list of likely candidates for enhancing growth with the portfolio ‘wrapped around the existing work programme’. A more deliberate approach would derive the business strategy from MBIE’s desired outcomes: what would MBIE need to do to play its part in ensuring the outcomes are delivered? That is likely to provide a clearer view of the gap between what current priorities will deliver and what MBIE and government can best do to help meet the desired goals. While many factors will influence economic outcomes, government regulatory, ownership and purchase settings have a major role to play. MBIE needs to continually test those policy settings against its desired outcomes to ensure it has the right portfolio of well-sequenced priorities and is able to free up resources from existing activity to discover and invest in new initiatives. That is likely to produce a more transformative portfolio of priorities defined and overseen by SLT over time: one that is distinct from the work programme managed by individual members within their existing business units.

ii Operating Model

MBIE’s operating model needs to leverage its unique position as the Government’s primary ‘business-facing’ agency to deliver best practice core activity and its portfolio of game-changing initiatives. MBIE has identified three strategic challenges that its operating model needs to meet to:

- fully exploit the scope for more integrated policies and services across the new Ministry

- lead the economic growth effort across the state sector to achieve MBIE's purpose, and
- deliver better public services within a constrained fiscal environment.

The portfolio is the heart of the business strategy and how it is managed is a key element of MBIE's operating model. MBIE recognises the importance of having a portfolio approach and has started learning how to design and manage it. In doing so, SLT recognises it needs to fill in the gap between the longer-term and higher-level outcomes defined in the Outcomes Framework and the more immediate responses to government priorities and the demands of its core business. In doing that MBIE will need to pay particular attention to:

- Identifying those initiatives that will have the biggest impact on outcomes and need to be included in the portfolio overseen by SLT. That requires a well developed view of where government intervention will add most value, where some investment is required to better understand the role government should play, and what needs to be elevated for more intensive SLT oversight. SLT needs to be able to assess the return from each element of the portfolio and, therefore, the level of investment each can justify. While this will never be a precise science, these judgements are being made implicitly and should be more explicit.
- Clearly sequencing activity across time, being clear about what is needed to deliver the required short-, medium-, and longer-term payoffs.
- Being clear about where existing activity is being managed to improve efficiency and free up resources for re-investment, where investment in new initiatives is required and where the Ministry needs to create longer-term options.
- Engaging with those who could help define each element of the portfolio and whose active partnership will be needed to deliver the results. This requires more focus on a strategic, rather than transactional, engagement model with key stakeholders, including the relevant Crown entities.
- Managing the portfolio on a tight time cycle to ensure pace with regular, structured decision points that force a tighter focus as they develop, eg, by applying and skilfully using a 90-day development cycle.

Prioritisation is then not so much about 'doing fewer things better' as it is about ensuring the right activity is undertaken at the right time and managed to the right objective to deliver the overall outcomes in the desired timeframe.

MBIE describes its operating style as 'tight-loose-tight'. 'Setting the direction and leadership' (*tight*) is described as setting sharp, clear expectations, setting the risk appetite, MBIE wide strategy, targets and priorities and resource allocation. This is to be embodied in business plans, individual performance expectations and portfolio plans. 'Empowering and delivering' (*loose*) is to be delivered through deputy chief executives (DCEs) and general managers (GMs) and their business groups and cross MBIE and stakeholder teams, utilising centres of excellence, regulatory, enforcement and Crown entity instruments and communities of practice. 'Assess and hold to account' (*tight*) is envisioned to happen at the individual and collective level, including through SLT performance management and oversight of the portfolio of key programmes. The key mechanisms to deliver this will be evaluation and review, monthly and quarterly reporting, half-yearly reporting to the Minister and staff performance reviews. This is a sensible approach but MBIE needs to do more to implement the tight components to support this aspect of the operating model.

Key features of the operating model should include:

- a The best practice core activity initiatives being driven off a shared understanding of new ways of collaborating with other internal partners and external stakeholders and the culture and behaviours that will support the future business strategy.
- b The portfolio being lifted out of the line and new ways of operating being trialled. For example, a director could lead and manage each of these initiatives, reporting to an appropriate DCE. Where appropriate a 'war room' approach that mobilises resources across MBIE, the public sector and even relevant private sector players to deliver on individual initiatives in the portfolio could be used. The aim being to mobilise resources and create a common language, fact base and agreed model of the way the world works so attention is focused on areas where Ministers need to make judgements – like benefit distribution.
- c Leveraging MBIE's business-facing position through strong relationships:
 - externally, to enlist the support of others – especially business and labour – in helping it achieve its growth goals, including co-creating solutions in some instances
 - internally, between policy and operational functions so that policy development is informed by operational 'know how' and requirements and implementation issues are recognised and addressed as they arise.
- d Exploiting the synergy amongst the component parts of the new Ministry to deliver a more powerful proposition to key stakeholders, like Ministers. This can be done by identifying where those synergies are important and using a combination of governance, structural, process, behavioural and incentive levers, to ensure the required integration. That needs to be combined with an approach to relationship management that draws from across MBIE to deliver for a specific stakeholder. If this was working really well it should, for example, give portfolio Ministers better service than could be achieved from their 'own' portfolio-specific Ministries.
- e A well-developed and shared sense of the contribution government can make to economic growth and when and how government should intervene to maximise its positive contribution. While this understanding should be subject to internal challenge and debate, at any one time the agreed framework needs to be either deeply embedded as part of the way MBIE works or else process requirements are needed to ensure that proposals are consistent with it.
- f A culture, built from the ground up, that supports the MBIE way of working. Some of the cultural characteristics likely to be important include:
 - being results driven and business like in pursuit of its purpose – having a clear line of sight for each person between their work and its contribution to achieving MBIE's purpose
 - having an outward orientation that enlists external support with a well-integrated, internal 'one team' approach
 - the ability to give and take the responsibility necessary to be innovative and make a 'tight-loose-tight' management style work
 - challenging of itself and others and therefore not captured by normative considerations or by particular interests.

g A strong risk management framework that defines and applies MBIE's risk appetite and manages risk at MBIE and portfolio level. A degree of risk is inherent in a programme that will need to be ambitious to deliver the Outcomes Framework, rapidly build momentum and encourage innovation. At the portfolio level, controversy, and the resulting heightened uncertainty, can be mitigated through sequencing initiatives that, for example, build public confidence that development will be undertaken with their values and welfare in mind.

Some of the SLT's best work was undertaken when it articulated the MBIE business strategy and operating model as described above. More recently, the focus has been on completing the merger and getting people into roles. The MBIE Self-review notes *"the Ministry needs to shift emphasis from delivering a merger to leading the government effort to improve economic performance at the firm, market and sector level. It needs to communicate a motivating sense of purpose based on a clear articulation of how government can best support economic growth and a strategy that builds momentum and confidence by starting with the more urgent and important growth opportunities"*. We agree. SLT must now lead the next phase in ensuring that the portfolio approach and the 'tight' components of the tight-loose-tight operating approach are fully developed and implemented. Only then will MBIE move from being a 'federation' to a fully integrated agency able to capture synergy benefits.

As will be seen in the body of our Report there are a number of areas where the types of practices we describe above are being applied within MBIE. For example, in and between the tourism and immigration areas. MBIE will be well served by identifying and building from those examples.

iii Implementation (including change capability)

Because momentum is important and MBIE is implementing a new and evolving operating model, there is merit in managing the portfolio through a series of 90-day cycles, with clear milestones, quick feedback and maximum visibility across SLT. This would reinforce collective responsibility for managing, resourcing and landing results. This approach would also support a performance management system SLT could use to ensure the portfolio stays on track, resources are reallocated as necessary and issues are elevated for resolution in a timely way. SLT should ensure, as it is holding the organisation to account for the current 90-day cycle, that the development of the next 90-day cycle is also front of mind.

The probability of successful implementation will be maximised if MBIE's operating model:

- is explicitly designed to support its business strategy, by ensuring that it has the differentiated capabilities required to succeed, critical decisions are made and executed at pace and that it keeps a tight focus on what drives value for its customers and New Zealand
- encompasses business practices that are tested against the principles of repeatability, adaptability and simplicity, optimising cost and ease of doing business and setting clear guidance of when variance from the operating model is appropriate
- is self reinforcing – choices made about the MBIE way of work are complementary and internally consistent. Virtuous circles are designed which expand value creation and realisation and are proactive and evidence led
- is able to sustain effectiveness over time.

The magnitude of the change required to implement the MBIE operating model and business strategy may require further adaptations to the governance model. SLT needs to be aligned on why a further shift in the operating model is required, what needs to change and how the change will be managed

and led. There are a range of management techniques which could assist to consolidate the progress made to date and help accelerate and embed new ways of working, including:

- freeing up the Chief Executive to be more outward focused
- designating a second tier leader to lead, and be accountable for, the execution of MBIE's operating model
- a principal advisor to the Chief Executive and/or Chief Executive's Office to support coordination, timely decision-making and follow through across the business and with stakeholders
- a common business coach for SLT to accelerate new ways of collectively governing MBIE while also managing large segments of the business
- a business board (not a board of experts), which helps bring the outside in to MBIE
- sophisticated voice-of-the-customer feedback and intelligence on what drives value.

What will success look like?

The ultimate measure of success is that in four years' time there is widespread acknowledgment that government's regulatory, ownership and purchase policy settings are consistent with the goal of delivering a substantial and sustainable increase in real average household incomes by 40% by 2025. Moreover, large and unforeseen shocks aside, steady progress is being made towards this goal by improving labour productivity, exports, labour force participation and housing costs. The wider community will support the actions required to generate significantly higher living standards because the approach taken is consistent with the community's wider goals and benefits are shared through jobs and an affordable place to live 'for all'.

This will be the result of:

- building the momentum and credibility that comes from delivering on the targets and business strategy articulated in 2013
- knowing where MBIE's future contribution will come from, with a credible plan to deliver those results based on an understanding of where government can add most value and a balanced portfolio of interventions
- a substantially increased scope for faster growth in future, because:
 - the public has confidence that development will be undertaken with their values and welfare in mind
 - investors, entrepreneurs, employees and consumers have confidence in markets and the predictability of the regulatory regime underpinning them
 - Ministers are confident in MBIE's advice and ability to implement well and to help them manage the risks associated with accelerated development that government needs to manage. They prefer to be serviced by MBIE rather than have their own departments because MBIE is better able to meet their needs
 - MBIE and the regulatory entities it oversees are seen as intelligent regulators and MBIE is adding value to Crown entity performance by effectively using a 'tight-loose-tight' monitoring framework.

All based on the foundation of a robust operating model that gives MBIE and its partners confidence they can be more ambitious about what can be achieved for New Zealand.

MBIE will:

- have an inspiring and decisive SLT, and management team, that first and foremost takes collective responsibility for MBIE's direction and performance and the contribution it makes to New Zealand's microeconomic performance
- be defined by its business strategy and operating model and behaviour, not by its legacy components, its particular role or even its successful initiatives. This will define the well-integrated 'whole' of MBIE and that the whole will be greater than the sum of the parts
- behave in a business-like manner and reflect the best of the business environment it interfaces with, it is innovative, efficient and effective and focused on delivering results through partnering and leveraging its comparative advantages. It is ambitious for New Zealand with a winning team that makes a difference. It attracts, utilises and develops talent, with a reputation as both a great place to grow and to work and as an agency that is great to work with
- be widely respected and able to enlist business and other stakeholders in addressing growth issues in the national interest. This respect is likely to be based on:
 - MBIE's understanding of firms, markets and sectors, especially what is unique about New Zealand
 - the quality of its external partnering, based on a clear understanding of its role, what it brings to the table and what it expects of its partners, while also recognising the value-add for its partners
 - its thought leadership, especially in determining where and how government can add most value
 - the quality of the services it provides
 - its ability to deliver a timely and well-coordinated government response to accelerate development that is in the national interest
 - its ability to resist special pleading to advance particular business or other interests that do not advance the national interest
- articulate a motivating, unifying and discriminating purpose that ensures it can prioritise in a way that enables it to continue to support stronger economic performance over a prolonged period.

Paula Rebstock
Lead Reviewer

Dr Murray Horn
Lead Reviewer

Debbie Francis
Lead Reviewer

CENTRAL AGENCIES' OVERVIEW

Central agency chief executives thank the Lead Reviewers and endorse their conclusions on the opportunities that the creation of MBIE affords and the challenges in the Four-year Excellence Horizon.

The purpose in establishing MBIE was to create a single organisation that would both undertake the functions of the existing agencies but also go further – using the reach and breadth of MBIE to deliver a greater positive impact on the economy than has been possible before. Bringing four agencies into one is a challenging undertaking and substantial progress has been made in creating a single, integrated and high-performing agency.

We thank MBIE leadership and staff at all levels for their commitment and efforts to date. During this period of change MBIE has successfully executed a number of significant and high profile programmes that were part of its inheritance, whilst continuing to deliver across its wide spectrum of business-as-usual responsibilities.

Securing the value proposition envisaged from a single MBIE will continue to require focused energy, skill and commitment for some time to come. The changes being implemented in MBIE are taking place in a dynamic context in terms of the national and international economic landscape and as a result of the change agenda for the Public Service. They involve new and demanding leadership expectations for MBIE in its own right and as part of the wider system. In turn, this will require new and different ways of working, within the system and with stakeholders in the wider community, to support Ministers to move MBIE's economic narrative *Growing New Zealand for All* from diagnosis to implementation.

MBIE is making good progress in building the systems and processes to support a single, integrated, high-performing organisation. We are encouraged by the many examples identified in this Report and agency response of a strong upward trajectory across the different parts of the business that can be built upon.

We agree with the themes for action identified by MBIE's SLT and look forward to working with it on implementation. We encourage MBIE to identify and take advantage of cross-portfolio opportunities internally to exploit information, capability and intervention synergies relating to policy design and execution. We would like to see MBIE ensure – through its policy and ownership levers – that the Crown entities in the MBIE 'family' are aligned with its goals in how they implement economic strategy and that their experiences help to inform MBIE's policy and regulatory development. Over time, this could involve shifting MBIE's Crown entity monitoring model from one that is largely transactional and tactical to a more strategically oriented approach focused on high-level assurance of capability, governance and performance.

We note the Lead Reviewers' comments in the organisational management section that cementing MBIE-wide values, culture and behaviours will determine whether people buy-in to, and apply, the overarching microeconomic strategy as well as the organisational strategy. We encourage SLT to invest, as necessary, in capability building to support staff to be successful in operating in new ways and invite them to consider applying a programme management approach to the next phase of change execution, as a way of protecting resources and maintaining pace and momentum. We agree that the results of MBIE's new staff Engagement Survey will be an important indicator of progress.

We also believe it is important for MBIE's SLT to move quickly to bed-in the operating model, as this is critical to creating an agile, integrated and responsive agency. In our view this will establish a solid foundation for meeting future challenges.

Achieving change of this scale requires a breadth of capability and reach that extends well beyond MBIE's SLT and staff alone. Active support and participation of many others is essential, including MBIE's Crown entities and other partners and stakeholders within government and in the wider economy. Central agencies are committed to supporting and facilitating these efforts not least by working with MBIE's leadership to ensure that they have the space and time to progress the actions that will contribute most to the achievement of their economic and organisational goals.

We look forward to continued engagement with David and his SLT to identify where the central agencies can add most value to their efforts to deliver change, including mobilising the wider system. Specific areas of support are likely to include:

- execution of key business strategies and systems, in particular financial management, workforce planning and Crown entity monitoring improvements
- drawing on the economic narrative to inform choices, assisting MBIE to take advantage of all the flexibility under the Public Finance Act 1989 and the State Sector Act 1988 to remove unnecessary barriers and impediments to smart use of resources as it develops options for managing the substantial financial pressure that will emerge over the coming four years
- supporting MBIE in its system leadership of Result 9 and the procurement function
- addressing obstacles to effective cross agency working, such as clarifying the rules for funding activities that involve multiple agencies and ensuring that governance arrangements are fit-for-purpose
- helping to simplify and rationalise the authorising landscape, such as reviewing the vote and appropriations structure
- partnering on the narrative and BGA and helping to take these out to the system and the wider community
- acting as 'critical friends' including championing and building on success
- working together to 'future proof' the direction of travel and action agenda, using the next Four-year Plan and other system processes to cement the excellence horizon and the targets and milestones identified in the agreed action programme.

Iain Rennie
State Services Commissioner


Gabriel Makhlouf
Secretary to the Treasury














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

SUMMARY OF RATINGS

This Review was conducted in late January/early February 2014, 18 months after MBIE was established and 12 months after its SLT was appointed. The ratings reflect what we found at that time, measured against the challenges described in the Four-year Excellence Horizon. Overall we rate MBIE as 'needing development' as: its performance is adequate, but there are concerns for future performance; it is beginning to focus on processes, repeatability, evaluation and improvement and management beyond and across its units; it recognises where it is underperforming and lacks capability; and has, and is implementing, strategies and plans to lift performance and respond to its deficiencies.

Results






GOVERNMENT PRIORITIES	RATING
Leading Economic Growth	
Better Public Services	





CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
Strategic policy		
Supporting the business and innovation system		
Supporting effective skills development and a well functioning labour market		
Supporting the housing and building system		
Supporting and managing the economic infrastructure		
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 Ministers	
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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Note: There have been three significant upgrades to the PIF Agency Model since it was implemented in 2009. The first was the inclusion of the Four-year Excellence Horizon in October 2011. The second was the Strategic Financial Management upgrade in December 2012. The most recent is the Better Public Services upgrade in January 2014. These upgrades affect comparability with previous PIF reports. For more information on the upgrades see: <http://www.ssc.govt.nz/pif-core-guide-1>.

AGENCY CONTEXT

MBIE was established in July 2012 bringing together the functions of the Ministries of Economic Development and of Science and Innovation and the Departments of Building and Housing and of Labour. Since that time the decision to create a Crown entity, WorkSafe New Zealand, to be the health and safety regulator has been implemented.

The objective of bringing these together was to create a single, dedicated business-facing department, that would:

- strengthen the Government's policy capability
- improve the regulatory environment for business and consumers by focusing on economic impact
- bring together business-facing service delivery functions
- improve the government's internal coordination and reduce duplication of effort.

MBIE is expected to play a central role in helping Ministers to shape and deliver the business growth agenda, by ensuring they have clear, coordinated, and focused policy leadership in the business-facing part of government and by delivering services to support higher productivity and better economic performance, through competitive and internationally focused businesses and industries.

MBIE administers 12 Votes (ACC, Commerce, Communications, Consumer Affairs, Economic Development, Employment, Energy, Housing, Immigration, Labour, Science and Innovation, and Tourism), services 14 portfolio Ministers and oversees 23 Crown entities and Schedule 4A companies.

MBIE's overall Budget for 2013/14 was \$4.29 billion, made up of departmental expenditure – \$608 million (14%) and non-departmental expenditure – \$3.68 billion (86%).

More than 40% of the departmental expenditure was third-party funded.

As at 30 June 2013 MBIE had 2,942 employees or around 6% of the Public Service workforce. Of these staff 88.5% were located onshore and 11.5% are offshore. It has 62 offices within New Zealand and 21 sites overseas.

As an indicator of the scale of its operational functions, in 2012/13:


- 430,000 visas were processed covering international visitor, work and student visa applications
- 48,000 New Zealand Residence Programme applications were processed; 39,000 approved
- 7,000 new licences were issued for building practitioners and 15,000 practitioners were relicensed
- 2,900 workplace assessments were conducted
- 1,000 complaints regarding breaches of standards of employment legislation were investigated.

MBIE is responsible for a total of 1,360 Acts and other pieces of legislation.

RESULTS SECTION

Part One: Delivery of Government Priorities

This section reviews the agency’s ability to deliver on its strategic priorities agreed with the Government. While the questions are ex-post and guide Lead Reviewers to retrospective and current performance the final judgements and ratings are necessarily informed by scope and scale of the performance challenge.

Government priority 1: Leading Economic Growth
Performance Rating: Needing development 

MBIE has a central role to play, as a key economic advisor with primary responsibility for providing leadership on the microeconomic elements of the government economic growth agenda (currently the BGA) and as a Ministry with direct responsibility for delivering large parts of that agenda. This leadership role has two elements to it. Firstly, to ensure Ministers have the relevant information and advice to make decisions that best advance the Government’s goals for economic growth and development. Developing an MBIE microeconomic framework that includes a well-articulated view of how government can add most value in its various roles, eg, regulator, owner, funder and provider, would help MBIE be more proactive and provide greater certainty to the private sector. Secondly, it must implement government’s decisions in the way that best supports those goals.

Government has recently published its *Progress Report* on the 346 actions that make up the BGA. It shows significant progress over the 12 months to November 2013, with 42% of these actions completed, a further 34% being implemented and only 22% still ‘in progress’. There were only three new actions added during this period.

While each of these actions will help achieve the BGA goals, and the Report records significant progress on these actions, there is no sense of the extent to which these actions are contributing, or will be sufficient, to achieve the BGA goals. That makes it difficult to prioritise, to learn what is most effective and to identify and size the need for additional action. While estimating contribution and sufficiency will always be a matter of judgement, officials leading this process are making this judgement in formulating their advice to Ministers, even if only implicitly. It would be helpful to make such judgements explicit in order to subject them to contest and refinement.

Indeed, it seems unlikely that the BGA goals will be delivered, given current course and speed, despite the very real progress on the BGA action plan. To be confident of delivering, MBIE would need to be better placed to ensure that both the recovery we are starting to see will be sustained and that longer-term trend output performance will be significantly better than has been achieved in the past (see “environment” section above). That, in turn, is likely to require a more transformative business strategy from MBIE (see the business strategy and the changes in operating model required to bring that to life).

As a key economic agency, MBIE works with the other economic agencies, like Treasury and the Ministry of Foreign Affairs and Trade (MFAT), to develop the well informed judgements about contribution and sufficiency essential in guiding their advice on the development of government’s economic strategy, setting priorities and managing delivery against outcomes (rather than managing activities). Managing against outcomes will require greater emphasis on ensuring the right pace is maintained and developing a capability for the exploration and discovery of new ideas and approaches

that will fill the gap between what is currently under way and what will need to be done to deliver the desired outcomes.

With primary responsibility for the microeconomic elements of the government’s economic agenda, MBIE needs to develop the features of the business strategy and operating model described in the “Performance Challenge: Organisation” section. Indeed, building its own capability in this area will help MBIE to make a stronger contribution in its role as a key economic agency.

In terms of its direct responsibility for elements of that microeconomic strategy listed as part of this Government Priority:

- **Innovation, safe and skilled workplaces, petroleum and minerals.** The discussion in the relevant Core Business section takes a wider look at the contribution these elements could be making to the outcomes desired in the BGA and, therefore, gives a better assessment of how well placed MBIE is to deliver the desired outcomes. For example, the BGA *Progress Report* rates, “capture the upside of our energy and minerals potential, and manage risks responsibly” as ‘completed’ because new legislation and regulations have been introduced. In fact, while progress has been made, MBIE is still in the early stages of capturing this upside, with a significant lift in performance required in this area.
- **Capital markets.** There is a widespread view that the legislative and regulatory reform over the last two years has improved the functioning of New Zealand’s capital markets. This has been a traditional area of strength, in terms of thought leadership and stakeholder engagement. However, there are still outstanding issues in both the policy and operational areas that MBIE has not addressed. On the policy side, for example, MBIE needs a well-articulated view on the role of foreign inward or outward investment. On the operational side, the recent PIF Follow-up Review of New Zealand Trade and Enterprise (NZTE) identified the need for a stronger capital proposition (including the need for a clearer policy framework). Although this is now being addressed by NZTE, it is something that should have been identified earlier and the appropriate guidance provided on where government can add most value via NZTE’s programmes (see Core Business – Crown Entity Monitoring). Notwithstanding this, MBIE’s Immigration group and NZTE are working more closely together to attract high net worth migrant investors, with some notable success.
- **NZ-China relationship.** This is led by MFAT and is largely on track to deliver or exceed its goals. MBIE is well placed to support the China Strategy in terms of both its immigration and tourism activities and is widely seen as doing a good job in both areas. While there is more to do, eg, facilitating higher-value tourists and quality investments and working with trusted partners in-market, MBIE is well engaged with stakeholders and travelling in the right direction.
- **Regional development.** While there is a regional lens on many aspects of MBIE’s work, eg, the intersection with Petroleum and Minerals and improving outcomes for Māori, MBIE’s regional focus is rightly on the two largest areas of opportunity: Christchurch and Auckland.

While the CERA has the role of leading the recovery, we believe MBIE on its own and working with CERA can do more. There are about 300 MBIE staff working on the Canterbury rebuild, which is one of MBIE’s 11 key work areas. Progress with Christchurch has been slower than expected and, while the various parts of MBIE are making progress in their individual areas of responsibility, like housing, the innovation precinct, immigration and procurement, more needs to be done to provide more certainty to business around government’s plans and approach, eg, more engagement with business around forward plans, more systematic measures of success, linking activity to those outcomes and sizing and managing the risks to those outcomes. Greater certainty will reduce the business risk associated with investing in the capacity that will be needed to reduce the risk of supply bottlenecks as the rebuild gathers pace (the positive business reaction to the recent market engagement day demonstrates the value business places on this certainty).

More could also be made of the whole public procurement effort to improve construction productivity and reduce resource contention. Collectively, publicly funded construction demand will be substantial and should be used to encourage changes in construction practice that will increase productivity, eg, by engaging private partners earlier, using building information modelling (BIM), requiring greater standardisation and pre-fabrication in publicly funded projects. Moreover, different approaches to procurement – like the New Zealand Transport Agency has done with Council and alliance contracting – should be considered in an effort to engage more private innovation and make better use of scarce resources.

While the Auckland relationship can work well at the level of individual projects and events, there needs to be a strong sense of partnership with Auckland Tourism Events and Economic Development (ATEED) given the importance of the city to the economy, eg, film, incubators, convention funding, NZTE partnership programme were all cited as areas where more effective partnering would lead to better outcomes.

- **Improving outcomes for Māori.** MBIE's approach is embryonic and needs to clarify what the right role for government is in helping promote Māori economic development in the post-Treaty settlement phase. While MBIE is more focused on this issue than its constituent agencies, has better links with other agencies and has an advisory panel to help it still needs to refine its approach, develop its relationships with Māori business and build its internal capacity.

There is a Māori Economic Strategy and action plan and a panel that advises MBIE and its Minister on progress. The Strategy focuses on improving educational outcomes, more successful Māori business and putting Māori-owned assets to work. This now needs to be translated into clear targets and key performance indicators (KPIs) for all of the agencies, to clarify different agency accountabilities for different elements of the Strategy and action plan, with the right capacity and capability assigned to deliver. Expectations need to be well anchored in more refined deliverables or there is a risk they will get ahead of what government either should be doing or can actually deliver.

Government priority 2: Better Public Services

Performance Rating: **Needing development**



MBIE is the lead agency for Result 9 of the Better Public Services (BPS) work programme which requires eight agencies to work together so that by 2017:

New Zealand businesses will have a new, one stop online shop for all government advice and support they need to run and grow their businesses.

Getting traction in this Result area also requires MBIE to engage with the DIA-led Result 10, which focuses on ensuring that New Zealanders can complete their transactions with government easily in a digital environment.

MBIE's Chief Executive was also mandated by the Government to be the functional lead for government procurement services.

In 2012, the BPS Action Plan for Result 9 released the following targets:

- business costs in dealing with government would reduce by 25% by 2017
- government services to business would have similar performance rates to leading private sector firms by 2017.

The intent of the Result 9 work programme was to secure some early deliverables to build confidence and show progress toward these goals. Activity so far has included:

- knitting some existing initiatives into the Result 9 agenda, such as, for example, the initial phase of the Trade Single Window project and the migration of the Intellectual Property Office to a fully online service
- steps towards the implementation of the New Zealand Business Number (NZBN) initiative, with support from the Inland Revenue Department (IRD) and ACC
- some early baseline analytics for the amount of time businesses currently spend transacting with government
- a start on the Government Connect programme as the platform of integrated public/private services
- plans to develop and release an online compliance obligations tool for businesses
- steps towards a customer segmentation strategy and draft business personas
- a draft future state roadmap to realise the objectives of Result 9.

Securing meaningful quick wins and longer-term game-changing shifts in business to government relationships requires a different sort of leadership than the usual interagency ways of working. The BPS results were designed to stimulate these more creative processes of discovery and cross-system learning in the context of ambitious goals that could not be reached by incremental improvement. The BPS results required agencies to discover, design and test the bold, non-linear moves that would create step-changes in value across the system.

A recent external health check on Result 9, commissioned by MBIE, has provided a set of recommendations broadly along the lines set out below. These should be implemented with urgency. MBIE needs to get out in front of this work programme and doing so provides a valuable opportunity to take strategic relationships with the business community to a new level and experiment with fresh approaches to co-creation. Result 9 gives MBIE permission to be bold. The agency must seize it, and soon.

The Result 9 programme seems to have struggled in terms of the challenge to discover, design and test the bold, non-linear moves that would create step-changes in value. Progress to date has been hampered by participant agencies' internal churn or distraction and the quick wins, while rather tentative and preliminary in nature, appear still to have been hard won against the forces of bureaucratic inertia. These first moves should now be translated into commercial value. For example, the plan to harvest quantifiable benefits from the NZBN needs development. The compelling and overarching view of what success will look like and detailed work on the biggest value game-changing initiatives is a matter for urgency two years into the five-year programme. Hence, there is significant opportunity to lift the level of aspiration and the implementation tempo in the Result 9 programme by:

- revisiting and deepening the voice of customer work. Rather than a conventional analytical approach, a more co-creative, discovery-based approach with stakeholders could be used to provide renewed impetus, a more compelling collective ambition and to ensure that the business community has 'skin' in the design and execution process
- increasing the rigour around the programme management methods being applied to the work. This could be supported by a more visible programme management regime with a strong focus on identifying and tracking the benefits sought and overall return on government's investment. Work on a sustainable co-funding model for the programme can be driven faster, accountability for benefits realisation can be more explicit and consequences for non-delivery more meaningful

Delivery of Government Priorities

- balancing this, the application of innovation and design tools, such as rapid prototyping, would also be beneficial. A ‘fast learn, fast fail, fast feedback’ loop would enable a more nimble and strategic approach to building shared confidence and a stronger sense of the size of the prize in this area.
- generally, transformative changes such as those sought via Result 9 will not be achieved by working as a facilitator across the eight participating agencies. Strong leadership and starker approaches to prioritisation are usually applied to game-changing initiatives. If the participant agencies and key business stakeholders could pragmatically agree on the two or three high-yield initiatives that would make the most difference to the result, then lower-yielding items can be dropped from the work programme to focus collective energy where it matters. This will require an active style of governance going forward.

With regard to MBIE’s lead role in procurement, Cabinet last year approved MBIE’s Government Rules of Sourcing, which created an all-of-government approach to procurement and aligned New Zealand’s approaches to international best practice. Cabinet recently agreed to extend these to Crown entities.

To date, MBIE has saved agencies \$76 million in direct costs and forecasts savings of \$350 million over contract lifetimes. The conceptual shift that MBIE has successfully catalysed in this space relates to a shift to whole-of-life approaches to contract value and the dissemination of new models of outcomes-based and alliance contracting. What started as a relatively simple efficiency exercise has now migrated to a much more confident, inclusive, value-added space, with an all-of-government perspective.

This work received international recognition at the Australasian 2012 Procurement Professional Awards, won an award for best Infrastructure and Capital Works Project and won the Best Process Improvement Award (for work on procurement negotiations).

Having said all this, New Zealand is about to experience its biggest procurement spike ever, as the Canterbury rebuild gathers momentum and projected Auckland demand. It will be critical to ensure these high-level system gains are translated into high-integrity procurement practices. Principles-based frameworks require continual vigilance with regard to integrity if they are to be credible over the medium term. We would assess this aspect of this priority as “well placed”.

See below (Core Business 3) for the discussion of Immigration New Zealand’s Vision 2015 programme (one of the key game-changing projects in MBIE’s portfolio) which is described as ‘well placed’.

RESULTS SECTION

Part Two: Delivery of Core Business

This section reviews the agency’s effectiveness and efficiency in delivering its core business. While the questions are ex-post and guide Lead Reviewers to retrospective and current performance the final judgements and ratings are necessarily informed by the scope and scale of the performance challenge.

One of the expectations of MBIE is that it will build close links between policy, regulatory and delivery functions to ensure that policy is informed by frontline insights and lessons learned from implementation. This should improve the robustness of policy and make policy implementation faster and more effective.

In undertaking this Review we have adopted the definition of Core Businesses used by MBIE in its Self-review. With the exceptions below, MBIE has designed its organisation around these Core Businesses. This design creates a deliberate creative tension between policy and delivery which, while challenging in management terms, appears to be working well and generally to be infusing a strong end user/customer mindset into the organisation. We have identified examples, referred to in the body of this Report, where these linkages are being leveraged with excellent results.

MBIE has established separate business units for its immigration service delivery functions (Immigration New Zealand) and many of its customer-facing delivery services (Market Services). This has enabled a concentrated management focus on the Immigration Vision 2015 business transformation process and a range of performance improvement activities in the Market Services Group. The latter range from identifying an MBIE approach to similar functions previously undertaken by MBIE’s predecessor departments (eg resolution services), internal benchmarking, structured customer and stakeholder feedback and continuous improvement. Again, we have identified excellent examples of work to improve the efficiency and effectiveness of services.

A downside of the approach taken to the definition of Core Businesses has been that it has necessitated the aggregation of some quite disparate areas, the performance of which, when judged through the future focused lens of the performance challenge, is often variable. When ratings for subsections might differ, we have based the overall rating on a ‘fitness of the portfolio’ view.

Core business 1: Strategic policy	
Performance Rating (Effectiveness): Needing development	
Performance Rating (Efficiency): Needing development	

This Core Business seeks to address the motivation for the formation of MBIE, which was to reduce the complexity of developing and integrating advice across a number of business-facing areas; create a more consistent and effective regulatory environment for business; and realise efficiencies through increased synergies, reduced duplication and fragmentation. MBIE’s functions provide significant scope for it to link its policy and operational activity to develop and implement well-targeted initiatives. MBIE brings together many of government’s core economic policy and strategy instruments, such as innovation and technology, skills immigration, capital markets, infrastructure, intellectual property rights and procurement. MBIE has the potential to provide leadership and drive the policies needed to ensure New Zealand reaches its economic potential.

Delivery of Core Business

MBIE is widely recognised for doing an excellent job at setting its high-level vision, targets and Outcomes Framework. It is noteworthy that SLT largely drove this.

To realise more value from its policy resource, MBIE indicated it has focused its effort thus far on:

- grouping together related policy areas with the goal of supporting the development of integrated policy advice, more flexibility in resource allocation and sharper prioritisation
- building new policy capability across MBIE
- building links between policy and service delivery functions
- starting to use policy priorities to drive research work priorities.

Some high-level feedback on the policy function is available. MBIE asks its Ministers to rate its policy advice on a scale of 1-10, with 7.5 being met and sometimes exceeded expectations. Minister's ratings have ranged from 6.0 (satisfied) to 9.0 with an average of 7.1. Consistent with feedback from other sources, the areas that consistently met and sometimes exceeded expectations were Immigration and Tourism. The New Zealand Institute of Economic Research review of policy advice papers confirms that Tourism was the one area rated as 'Good', or above.


To set the economic agenda, Treasury and MBIE are working together to either create a shared economic narrative or at least ensure alignment between them. The Treasury is further advanced on its narrative than MBIE. Treasury has, however, taken a different tack to developing it, involving external panels and a leadership-driven process to hone in on a half a dozen priorities. Almost all external partners we interviewed expressed the need to understand what MBIE stands for and many expressed a desire to be part of developing and framing its priorities at a sector and national level.

While MBIE has a draft high-level narrative, progress has been variable across its portfolio. Some are at the scoping stage, some are delivering outcomes. Each has its own governance, agreed with SLT. Some involve new ideas, while others are just a collection of inherited work programmes. In total they do not yet add up to the high-level goals MBIE has set. It is not surprising it is hard to get traction, without specific targets cascading through the business. It is also apparent that there is not a prioritisation framework, which allows things to be turned off or staged at the MBIE-wide level, across or within particular teams. As a consequence, the path to execution is slow in much of the business.

At the same time the strategic policy team is working on the high-level microeconomic narrative, individual policy teams are also trying to work on integrated narratives across related sectors/markets and this is being iterated with the strategic policy team. The pace of this varies considerably, and appears to be driven by individuals rather than through systematic planning. There is considerable variation in process, including how much external input is involved. As a consequence, it is still unclear how good the line of sight is between MBIE's high-level goals and the policy work programmes of the various sections. This is further complicated by the reactive nature of much of MBIE's policy work for Ministers. It has been reported that more than 80% of the current policy work programme was inherited from the predecessor agencies. This is not entirely surprising, given that portfolio Ministers remained the same. Most stakeholders indicate MBIE has struggled to get on the front foot in terms of its policy advice. There have been some good outcomes, but the agenda has been largely driven by others.

There are, however, some positive signs in particular areas, such as housing where MBIE has responded to the Government-driven work on affordable housing and now has the capability and space to develop its market narrative and its evidence base and define its strategic priorities, intervention logic and detailed work programme. All of which is necessary to address wider issues on the supply side, particularly in the building and construction space.

As noted, there have also been some strong demonstrations of policy and operations teams working together across MBIE to deliver on specific Government Priorities, such as international education and tourism, where Immigration has made a significant difference to landing important parts of the growth agenda. The development of the new health and safety regime has also demonstrated how MBIE can work with external partners to improve outcomes. To maximise the full potential, however, SLT will have to provide decisive leadership on MBIE’s strategic policy position through much more systematic methods to drive the horizontal connections and external engagement necessary to deliver on New Zealand’s growth potential.

Core business 2: Supporting the business and innovation system	
Performance Rating (Effectiveness): Needing development	
Performance Rating (Efficiency): Well placed	

The Science and Innovation System

Low levels of investment in research and innovation relative to OECD norms have been a feature of the New Zealand economy for some time. Comparatively speaking, we are neither a strongly science-led society nor are our firms deeply experienced in Research and Development (R&D) commercialisation. A variety of interventions have been implemented over the last 15 years, institutional/structural and alternative funding levers. As a result, MBIE has inherited a complex and change-fatigued science and innovation sector.

The BGA provides an ambitious framework for better outcomes. Business R&D investment still represents less than 1% of New Zealand’s GDP, and key outcomes in this sector must often be achieved via a range of Crown agents and entities. Consequently, from a stewardship perspective, the intervention logic that sits under this broad strategic setting needs to be very carefully considered. This is even more critical, given the considerable ministerial energy and interest in this area, with key initiatives currently in flight including the:

- establishment of Callaghan Innovation as a new Crown entity to administer R&D grants, catalyse commercialisation ventures and better target and manage high-value investments
- introduction of the National Science Challenges to harness our top talent to research areas of direct relevance to New Zealand’s economic development goals
- development of the National Statement of Science Investment, as a five-to-10-year blueprint for the development of the science and innovation system
- Science and Society work programme, intended to consider innovative ways of building New Zealand’s science capital.

The Government’s Small Advanced Economies initiative, intended to draw developmental lessons for New Zealand from Israel, Singapore, Finland, Denmark and Ireland, also has a strong focus on the science and innovation drivers that could support a step-change in economic performance.

MBIE and the Ministry for Primary Industries (MPI) are working on the development of a world-class agricultural education and research facility at Lincoln University (the Lincoln Hub).

All of these projects require joint work with sector players and involve tensions around alignment, which may in turn impact some sector entities, such as between the National Science Challenge

Delivery of Core Business

work and previous approaches to the contestable funding pool, with implications for Crown Research Institutes (CRIs) and universities, which raise the temperature around sector engagement.

This high policy and operational tempo means MBIE needs to take a long-run strategic view of the system and build a sophisticated understanding of the key points of, and levers for, intervention that will create the most value. It also entails clear thinking about instrument assignment (regulatory, funding, etc) within the context of the wider microeconomic framework advocated in the Four-year Excellence Horizon. This in turn requires a strong outcomes focus and an evidence-based understanding of the relative return on investment of particular interventions. While an array of intervention logics currently exist for parts of the system (funding, Callaghan, NZTE etc), MBIE needs to develop and execute a more holistic system picture.

All parts of MBIE, from Crown entity monitoring to policy development, need to be focused on the right things and do the right things well.

Despite the favourable overarching government policy settings, having considerable internal intellectual heft and strong relationships in this space, and having access to circuit breaking influences such as the Government's Chief Science Advisor, MBIE has work to do in this sector.

Many of the key elements for value gain are in place or have been thoroughly explored in the past. Most of the players were respectful of MBIE's intellectual resources and relationship reach, receptive to strong leadership and aware of the opportunities provided by the BGA framework and current policy initiatives. The sentiment shared by both external stakeholders and MBIE staff was frustration with MBIE's perceived risk aversion and slowness to get cut-through because it is still learning the system.

The lack of agreed and clearly communicated system-level intervention logic can create a strategic vacuum which the Crown entities in the sector are having to fill. Boards in these entities need MBIE to provide the policy framework to guide their operational decisions and to set their business models and goals. Unless MBIE is providing the central policy and strategic brain in the system, the collective implementation efforts of its Crown entities risk adding up to less than the sum of the parts and opportunities for synergistic step-change will be lost.

The system needs a shared roadmap and shared ambition.

MBIE now has a real opportunity to be more proactive and ensure that New Zealand gains maximum economic benefit from the system by:

- fast tracking the system intervention logic and roadmap through joint working with key sector stakeholders and thought leaders, perhaps by developing an MBIE/sector 'war room' (or a Board) with tightly time bound deliverables to reduce the distraction of business as usual. This work will need to paint a compelling picture of what success looks like for the system over a five-to-10 year horizon. This will need to be amenable to use as a framework for prioritisation of investments and interventions
- working through Crown entity boards and chief executives, and emergent networks, such as system science advisors, to line up the institutional players around the plan. This will require a more strategic approach to monitoring, as traversed in the Crown entity section of this Report. It will be essential that the monitors are focused on the key areas of risk and value, as opposed to taking an administrative compliance approach
- shifting the focus of R&D investment contracting and monitoring to outcome-based measures, as opposed to the current focus on outputs, such as milestones and objectives

- leveraging the lessons learned in MBIE’s procurement arm to support alliance contracting and contracting for value outcomes, including the development of intelligence to support better targeted investments and interventions in future
- establishing sufficient technical capability and relationship capital to be trusted to lead constructive discourse on contentious issues in the system, such as the future of the CRI model and the future mechanisms for contestable funding. This will entail improved skill and confidence by officials in positioning the hard issues with stakeholders
- investing in deepening internal specialist policy capability in the science and innovation space, including in the commercialisation area and with respect to capturing lessons learned about expanding the social license for science in other jurisdictions. Such leaders are needed to enrich the policy process in this space and better position the public discourse on science and innovation
- developing greater sophistication in evaluation of science and innovation interventions and instruments and building effective feedback loops to support dynamic improvement
- being proactive in the policy conversation between MBIE and other NZ Inc agencies about the implications of the science and innovation roadmap for trade negotiations and Foreign and Outward Direct Investment policies, including the role of multi nationals in fast tracking R&D investment.

Given the small size of our annual R&D investment, it will be important for MBIE to take an effectiveness and value lens on this sector, rather than, as has been the case in the past, focusing largely on efficiency drivers. Fine tuning an immaterial line item is not as important as securing a step-change in materiality.

In summary, MBIE now has an opportunity to develop a bold vision that can galvanise other players around its leadership, as well as to nurture a culture that demonstrates to stakeholders MBIE’s support for new thinking and experimentation. Good science is about shared discovery; innovation is about risk taking. MBIE can earn its leadership of the sector by modelling both.

The wider business system

As identified in the Four-year Excellence Horizon, MBIE’s activities and work programmes currently reflect a stable of frameworks and intervention logics. A coherent and concise microeconomic framework and ‘house view’ on the business system, that assists with prioritisation and trading off and which has a clear line of sight to the BGA has yet to be developed. In effect, this is the microeconomic equivalent to Treasury’s macroeconomic narrative and priority areas of focus.

There are promising signs that such a guiding framework is achievable. As noted above as part of the post-merger organisation design process, MBIE made big efforts to get tight linkages between policy and operational service delivery groups. It has done good work across a range of areas on better and more integrated outcomes-based performance metrics. Effort is focused on data improvement in key areas such as tourism. The Market Services group, while comprising service groups of varying levels of maturity, provides a vehicle for joint learning about service model improvement and transformation. It regularly survey customers. The services provided by this group consistently exceed its customer services standards. Survey results are also used to identify opportunities for service improvement. Several of the services have also won external awards. In the policy space, MBIE is thinking hard about firm, sectoral and regional economic development lenses and how to integrate these.

Delivery of Core Business

MBIE has been able to land fairly coherent organising frameworks in some areas, such as Tourism, all-of-government procurement, resolution services and capital markets regulation. The result has been strengthened stakeholder relationships, good organisational learning loops and an increasingly tight focus on outcomes that supports proactive system leadership.


In Tourism, for example, MBIE is tasked with improving productivity and growth and enhancing tourism data. It has used its big levers around events and immigration to support higher-value tourism and tourism information to support improved industry decision-making. These are assisting Tourism New Zealand and other bodies to gain real traction and to marshal a diverse stakeholder landscape around the key issues. The Tourism Growth Partnership (on the model of the Primary Growth Partnership) is driving a much more strategic approach to removing obstacles to growth and lifting value. Line of sight to the BGA is strong. In terms of relationship capital, it is also significant that when MBIE has been perceived by the sector to have released flawed data, it has listened and acted to improve it.

As noted, in public procurement, what started as a relatively simple efficiency exercise has now migrated to a much more confident, inclusive, value-added space with a whole of government perspective.

In capital markets, MBIE continued the work (commenced by MED) to lead the overhaul of financial markets regulation and structure, working with the Financial Markets Authority to ensure smooth implementation and transition to the new regimes to protect investor confidence and improve market conduct.

In Resolution Services, MBIE has taken a leadership role to suggest the implementation of a shared services model to standardise dispute resolution across the business and justice sectors. Significant proactive work has been undertaken on loan complaints and on improving the standards and conformance infrastructure.

As with the science and innovation system above, the many moving parts of the microeconomic picture now need to be knitted into a coherent whole by MBIE's policy and strategy groups, with the overall story strongly informed, as in the examples above, by on-the-ground intelligence from stakeholders and MBIE's service front lines.

Core business 3: Supporting effective skills development and a well-functioning labour market	
Performance Rating (Effectiveness): Needing development	
Performance Rating (Efficiency): Needing development	

MBIE recognises that a well-functioning labour market is underpinned by the skills and employment system. It involves ensuring an adequate supply of the right skills, in part through a well-functioning immigration system, through linking skills and training to employment needs and regulating and managing occupations where necessary. It sets the regulatory framework and other incentives to encourage effective management of injury prevention and rehabilitation and promotes equity, participation and the productive use of labour.

This Core Business area includes:

- regulating the skills and employment system and monitoring its functioning. MBIE provides leadership across the skills system and employment policy. It undertakes research, analysis and evaluation of existing policies and service delivery

- Immigration New Zealand (INZ) enabling employers to access skilled migrant labour to meet their business needs in cases of genuine skills shortages
- health and safety in the workplace aimed at reducing serious injuries and fatalities in the workplace
- employment relations and standards policy and regulatory responsibilities
- accident compensation and rehabilitation policy.

The key outcome measures are:

- an increase in the proportion of workers in skilled jobs
- a decrease in the proportion of employers who find it harder to get skilled staff
- a reduction in workplace fatalities and serious injuries of at least 10% by 2016 and 25% by 2020.

Skills and Employment System

MBIE has contributed to a number of skills, labour and employment initiatives, including:

- the new Tertiary Education Strategy alongside the Ministry of Education
- the establishment of the Canterbury Skills and Employment Hub
- advice to the Government Administration Committee on the Parental Leave and Employment Protection (Six Months' Paid Leave) Amendment Bill
- introduction of the Employment Relations Amendment Bill, which aims to improve flexibility and efficiency of the employment relations framework while preserving necessary protections
- the enactment of the Minimum Wage (Starting-out Wage) Amendment Act in March 2013 and implemented on 1 May 2013.

To date MBIE's skills and employment work programme has been largely the initiatives inherited from its predecessors. Looking forward, to be rated 'well placed' on skills, labour and employment, MBIE needs to quickly develop its high-level labour market framework, intervention logic, priorities and work programme. A number of things should inform its priorities, such as an understanding of the business cycle, the impact of differing degrees of competition across markets, the development phase of critical sectors/markets, the pipeline of skills and education and the community's expectations regarding labour conditions. Any analysis of skills and employment interventions and impacts should be based on a full lifetime cost and benefit model of investment. This area of MBIE needs to be strongly aligned to other parts of MBIE in terms of its policy orientation, culture and capabilities. Timing of the business cycle suggests this should be one of SLT's highest priorities, as failure to get in front of developing labour market constraints poses the most visible threat to New Zealand's medium-term growth potential.

Furthermore, employment conditions regulation needs to be aligned with the Government's wider growth agenda. Value-added regulation would consider the contribution employment conditions and regulatory practice could make to enhancing growth. Finally, the MBIE skills and labour market story needs to be embedded in MBIE's microeconomic framework. External partners and stakeholders need a clear understanding of what MBIE stands for in the skills and labour market context. This needs to be well-articulated and evidence and principle-based. There is much value to be captured by MBIE getting much closer to key partners and stakeholders.

Immigration

INZ has a number of significant initiatives and activities under way, including:

- supporting Tourism, deciding 206,365 visitor applications in 2012/13, with 97% decided within 30 days
- supporting Export Education, granting over 83,000 student visas, with 87% decided within 30 days
- Vision 2015, a new operating model for the INZ, to improve services to visitors and businesses and support tourism and international education outcomes
- the Immigration Global Management System, which will simplify visa application processes and provide an online channel for visa applicants.

Despite some significant early difficulties, INZ is now 'well placed' in terms of efficiency and effectiveness. INZ has consistently exceeded its customer service satisfaction standards and uses customer and stakeholder survey and feedback information to improve its services. In addition, Immigration has been fast to respond to new cross-cutting opportunities to improve New Zealand's growth potential. The learning loops between frontline service delivery and future operating model design are becoming tighter and this is resulting in a change programme that, while very ambitious, appears set to be well executed. To be rated 'strong', MBIE needs to:

- ensure it implements Immigration's Vision 2015 to expectations, time and budget (as adjusted to reflect elements not covered by the original Business Case). Improved services to customers and capturing promised efficiency gains and operational savings are required deliverables. The programme is subject to regular 'Gateway' reviews. These allow for regular and ongoing discussion on scope, budget and benefit realisation. If there is a requirement to seek additional capital from Government, this should only need to occur once and with strong discipline regarding scope. ICT Ministers have already been briefed that Vision 2015 has potential funding pressures. Programme risks will continue to need proactive mitigation and close monitoring by the Ministry
- demonstrate that Vision 2015 is not just an IT change but a change in how INZ does business end-to-end. INZ will need increasingly sophisticated and professional models of practice and capability as Vision 2015 is rolled out. Further consideration needs to be given to how to support professional judgement within a strong decision-making and delegations framework that ensures it is flexible enough to play a growth-enhancing role but also adept at managing risks to New Zealand's interests. The target is to be consistent, fair and timely in the provision of high-quality customer services
- continue to build external relationships in sectors that are reliant on high quality immigration services, such as tourism and education, so INZ can respond quickly to changes in the environment and supply and demand
- develop strategic priority areas for further growth-enhancing opportunities with others in MBIE and with external partners. The skills and labour market interface should be a high priority, given the current stage of the business cycle. MBIE needs to deepen its policy capability and change its orientation if it is to be responsive to emerging economic pressures.

Health and safety

MBIE has contributed to improved performance of the Government's health and safety system through the following initiatives:

- implementing the recommendations of the Royal Commission Inquiry on the Pike River Coal Mine Tragedy, including delivering a new regulatory regime for mining and establishing WorkSafe in December. Releasing *Working Safer* a blueprint for Health and Safety in New Zealand in response to the recommendations of the Independent Taskforce on Health and Safety
- introducing new health and safety legislation
- the *Lifting Our Game* change programme, with the creation of specialised inspector roles, a triage model for delivering work, and a business planning system
- launching the Canterbury Rebuild Safety Charter in July 2013, with over 50 organisations participating
- the Harm Reduction Projects, focused on 5 high risk sectors – agriculture, construction, manufacturing, forestry and occupational health
- providing policy advice on the ACC regulatory system (see following section).

MBIE has significantly improved its performance in this area and is 'well placed' in terms of efficiency and effectiveness. To be rated 'strong', MBIE needs to:

- improve its approach to agreeing priorities, expectations and performance measures across the health and safety system with external partners and sectors and then use these measures to hold itself and others to account for performance (see Crown Entity Monitoring). It may be useful to consider an annual Health and Safety Regulatory Conditions Report
- as the policy advisor and monitor of WorkSafe, encourage it to continue to develop a risk-based approach to the health and safety system and overlay this with an understanding of the dynamics, including the nature of competition in different markets, business cycle effects, incentives, etc., of various high-risk industries. When doing cost-benefit analysis MBIE needs to take a full lifetime cost and benefit approach to the analysis
- explore the full range of potential interventions and engage with those affected early to gain a complete understanding of likely implications and impacts. Be prepared to adjust advice, strategies and priorities in response to feedback, changes in the environment or changes in industry practice. Ensure regulations reflect community expectations and what drives the social license to operate and provides certainty to business
- work with other areas of government and other teams in MBIE to develop regulatory principles to bring coherence across microeconomic interventions. Look for value-adding, growth-enhancing regulatory approaches and design accountability mechanisms to reward them.



ACC

MBIE's relationship with Treasury regarding ACC has been challenging but now appears sufficiently stable to provide the basis for the joint working needed to create optimal health and safety, injury prevention rehabilitation and broader ACC Scheme outcomes. Within MBIE the Health and Safety and ACC monitoring teams have been merged to ensure holistic working and to facilitate a strong link between WorkSafe New Zealand and ACC.

Delivery of Core Business

Current work on a funding review has required MBIE, Treasury and ACC's Board to develop a joined-up medium-term view of the Scheme. The Board's current suggestions of a Government Policy Statement for ACC may assist in enhancing this joint focus on longer-term outcomes. The funding policy being developed aims to ensure a shared understanding of longer-term funding targets and goals and more stability in scheme performance.

While tensions in this key relationship appear inevitable from time to time and differences over risk thresholds are likely to occur, MBIE appears to be attempting to invest in the more strategic, respectful and productive long-run relationship that should enable any such issues to be managed.

Core business 4: Supporting the housing and building system	
Performance Rating (Effectiveness): Needing development	
Performance Rating (Efficiency): Needing development	

Building well-functioning housing and construction markets to deliver safe, affordable and fit-for-purpose residential and commercial buildings is one of MBIE's priority portfolio programmes. At the time of this Review, early thinking on three to five year outcomes for this Core Business area was under way. Meanwhile, the key outcome measure is an improvement in social housing through a 4% committed interest in the number of social housing properties owned or managed by community housing providers and 50% of all new social housing funded through the Social Housing Unit to be in the highest need regions, notably Auckland and Canterbury.

It is estimated that 20,000 to 23,000 new houses are required across the country over the next five years to keep pace with demographic changes. The current level of new housing construction is 17,000 per year. Meeting demand in Auckland and Christchurch is the most acute. Against this background, the housing and construction sector is the lowest productivity sector in New Zealand, while also being a major determinant of growth in the economy.

Initial work programmes have been established to deliver the following current critical priorities across the housing and construction markets portfolio: National Building Consenting System; Building System Improvement; Housing Affordability; Social Housing Reform; and Occupational Regulation of Engineers.

MBIE has also commenced a number of initiatives with external stakeholders, including:

- co-production of a Māori Housing Strategy with sector representatives
- meeting with building and construction sector leaders/Iwi on specific development initiatives
- meeting with local government and partner agencies regarding potential new housing accords and initiatives to streamline building consenting
- development and implementation of structural aspects of social housing reforms, eg, the regulatory function for the social housing market.



MBIE's *Statement of Intent* includes key indicators of efficiency for the housing and construction sectors. Tier One Statistics will be used for ongoing monitoring and reporting in the housing sector, while the national monitoring framework will enable detailed monitoring of the efficiency of the building and construction sector.

Recently MBIE has scrambled to respond to the Government’s agenda on social housing and housing affordability. The lag in getting key personnel in place made this a challenging period. While MBIE responded to immediate issues, it had not mapped out how the various components of the current work programme contributed to a medium-term strategy to improve housing affordability. As a consequence there has been delay in opening up some of the biggest opportunities, as building and construction remained disconnected from the work on affordable housing. As MBIE now positions itself to look at issues on the supply side, such as housing accords to free up land, the building system, procurement, consenting and the construction market, it should be able to take an increasingly joined-up approach, using all of the levers open to it. To do this, however, the housing and building system narrative needs to be anchored firmly in the overall MBIE economic framework.

Furthermore, a prioritisation framework with this sector and across related work programmes needs to be put in place. Decisions need to be taken on what to accelerate, what to stop and what to delay. The housing and building team needs to be able to size the contribution its portfolio needs to deliver to achieve the high-level MBIE goals, size the initiatives it has underway and fill any gap. Given the importance of this programme to MBIE, SLT needs to bring decisiveness, urgency and focus to achieving outcomes in this area. This area is now ripe for a strong 90-day cycle of accountability to drive performance and delivery of products and initiatives.

In addition, there are some specific opportunities, including:

- understanding what drives productivity in the building and construction sector and how the current industry structure is impacting outcomes
- the work on housing affordability being undertaken by the Productivity Commission
- greater use of risk-based regulation, such as in the consenting process
- faster moves to on-line processing
- greater use of the Government’s procurement lever to achieve affordable housing goals through shifts in production methods, eg, to get more manufactured rather than built construction
- accelerating the uptake of building information modelling
- improving engagement with external parties and the industry to co-create solutions, where possible, and to better test practicality and risks of interventions before implementation.

Core business 5: Supporting and managing the economic infrastructure	
Performance Rating (Effectiveness): Needing development	
Performance Rating (Efficiency): Needing development	

This Core Business includes telecommunications and ICT, energy markets and the management of our petroleum and mineral assets.

Telecommunications and Broadband

MBIE’s interests in the telecommunications sector include the regulatory agenda, the delivery of broadband infrastructure and the better use of ICT to drive economic growth. In the latter area MBIE connects to the work of the Government Chief Information Officer but is also interested in leveraging assets, such as radio spectrum, the new Crown company Network for Learning and exploring the opportunities for growth in a digital economy.

Delivery of Core Business

In recent years the attention of officials has been focused on the longer-term industry structure and regulatory issues pertaining to the delivery of telecommunications services, particularly unbundling, transition to fibre, the roll out of the rural broadband initiative, the structural separation of Telecom and the availability of 4G spectrum. The build project is on track, MBIE is satisfied with its contract management performance and consumer interest is high in the retail market and regarding education and skills opportunities provided by the network. Early evidence is that the structural separation is showing signs of driving the expected competition and innovation benefits.

Officials are only now turning their attention to developing a longer-term view of the opportunities for economic value creation. The key issue now is 'telecommunications infrastructure to create what value?' There is an opportunity to build a story that shows how the ICT and telecommunications portfolio connects to MBIE's strategic purpose and overall target. There are two key aspects to this: MBIE's engagement in supporting the ICT sector to further maturity and the role of ICT in enabling the wider economic growth agenda. Officials are now poised to undertake further work on both areas and may need to apply a more explicit portfolio approach to the many opportunities.

There is also a need to simplify and codify output and outcome measures. Information on the communications and ICT sector sits in a range of agencies (MBIE, the Commerce Commission, Statistics New Zealand) and this needs to be brought together to provide a full picture of progress and potential. A creative officials process to lead joined-up thinking around this is likely to be needed. The digital economy is currently a high public interest area and, as with petroleum and minerals, MBIE can help by assisting Ministers to proactively position the public discourse.

It is now a matter of real urgency to move MBIE's activity in ICT and telecommunications onto a much more strategic footing. More 'blue skies' thinking needs to be undertaken. How to use regulation more creatively to add value is an area that would benefit from some intellectual investment. While MBIE initiated and lead the work that led to the development of a cyber-security policy resulting in a dedicated policy team in DPMC. Cyber security issues could be more effectively managed with more anticipatory scanning and analysis. The telecommunications interception legislation that passed relatively smoothly in 2013 is a good start but there is more that could be done. Network policy needs to be informed by foresight regarding the digital economy. New service delivery models driven from digital platforms need to be thought about and examples from other jurisdictions examined for applicability here. MBIE needs to find mechanisms to ensure that the pockets of thinking that exist across the complex array of Crown entities, agencies and private sector players in these areas are brought together to inform its leadership and strategy development for overall economic development

Given the disruption to conventional business models in many industries that ICT is enabling, MBIE also needs to be applying design thinking and tools to its work. How can it lead and facilitate the business community to explore disruption scenarios and learn from these? At the moment, most stakeholders do not see MBIE in this space.

Post merger, MBIE has the opportunity to improve leverage across the innovation and skills sectors to inform the future development of telecommunications and digital infrastructure. It needs to be clear on the 'why' and the 'how' of the value it is trying to create. To better coordinate activity and adopt a longer range view, it might be helpful to examine some form of governance arrangement, such as a Digital Economy Board on the model of the Welfare working group, to get out ahead of the current work programme and lead a portfolio-based approach.

Energy markets

Since the 2010 reforms there has been a phased approach to market improvements. Key changes include: the Electricity Authority was established as an independent Crown entity, depoliticising regulatory decision-making; security of supply responsibility has shifted from government to the sector; competitive retail competition has been supported through measures such as a liquid hedge market; and stronger market signals on future supply retirements. Focus is beginning to shift to more innovation incentives, particularly in the distribution sector.

To date the impact from the reforms has included:

- significant improvements in water management with ‘shortages’ no longer occurring
- retail prices increasingly reflecting cost (based on Electricity Authority’s estimates of costs and hedge prices)
- the hedge market giving a three-year price signal for investors, retailers and large consumers. The forward price is increasingly approximating long-run marginal costs
- the energy component of average retail bill is dropping in real terms this year
- some evidence that new entrants are playing a role in constraining major players
- carbon emissions last quarter being the lowest in 17 years, as new renewables push thermal power out of the market.

Looking forward, MBIE is looking at energy in a broader context than resources policy. It is also turning to future opportunities and positioning of resources in a broader context. MBIE has also established a cross-cutting group to work on a longer-term energy strategy. Finally, it has set up the Smart Grid Forum to encourage innovation through meters and distributed generation.

To be ‘strong’ on energy markets, MBIE needs to follow market developments to ensure New Zealand energy markets are workably competitive and consumers increasingly realise the benefits that flow from this. While major supply side reforms have taken place, the role of renewables will be an area for continued focus. New technologies should also support far greater dynamic demand side improvements. MBIE will want to ensure nothing impedes competitive energy market developments on either the demand or supply side.

Petroleum and minerals

Government has a major role to play in ensuring that the substantial value embedded in Crown ownership of petroleum and mineral assets is realised in a way that meets the community’s economic, social, environmental and cultural objectives. Government is the resource owner, the industry regulator and it decides how the costs and benefits of exploration and extraction will be shared.

For the last couple of years, officials in the Petroleum and Minerals area have had the aim of shifting from a passive regulator to an active manager of publicly-owned petroleum and mineral assets. While significant progress has been made, there is more to do before we could be confident that New Zealand is well placed to make the most of what is a substantial public asset.



While not a smooth process, the Crown Minerals Act 1991 has been overhauled. The regulatory regime has been strengthened to offer greater safety and environmental protection. The shift to an annual block offer process is more proactive (rather than waiting for someone to show interest). Private incentives to invest in generating seismic information and prospecting have been strengthened by allowing for a period of exclusivity when that is in the public interest.

Delivery of Core Business

These improvements will have encouraged increased private expenditure on oil and gas exploration. The immediate pipeline of projects has been described by some as extraordinary for both its depth and breadth, ie, new companies attracted, the breadth of field types being pursued and the geographical spread outside traditional areas. While acknowledging this progress, others we spoke with also thought that more needed to be done to ensure a better spread of interest across the various segments of the public's petroleum and minerals estate, especially from larger players. In that regard, there was some concern that New Zealand has slipped from 20th in 2012 to 34th in 2013 in the Fraser Institute rankings as a place to invest in oil and gas exploration.

To be 'well placed' in this area, more needs to be done to expand the social license for exploration and extraction of petroleum and minerals. While MBIE is working with other officials and engaging with affected private interests to achieve this outcome, more substantive progress is required on at least three fronts:

- a Informing the public debate about the benefits, costs and risks associated with this resource development and helping government decide how the benefits should be shared and how the costs and risks should be managed. That will involve a better public understanding of the underlying science (eg, to understand the risks around fracking); a more strategic engagement with the industry; far better and more proactive and informed service to Ministers; and a more structured engagement with affected interests. The approach taken in the soil and water area is suggestive of a possible way forward.
- b Ensuring the regulatory regime provides assurance to the community that the risks of resource development will be properly assessed, mitigated and residual risk well managed. This regulatory environment needs to cover the complete set of risks; from environmental through to health and safety, and needs to reassure people that enforcement capability is sufficient and that residual risk will be well managed. The latter may require more openness about the quality of the industry's risk mitigation and impact management plans, eg, discharge management plans and oil spill contingency plans.
- c Bringing work on how the distribution of costs and benefits can be reconfigured to address legitimate community concerns to a successful conclusion. Currently royalties are treated as general government revenue, while the costs and risks of development are more localised. New Zealand also needs to be mindful of the intergenerational impact of realising what is a substantial asset. Other countries recognise and respond to these concerns by a better matching of cost and benefits over time and space than is implicit in the our current approach.

Crown entity monitoring	
Performance Rating (Effectiveness): Needing development	
Performance Rating (Efficiency): Well placed	

MBIE relies on Crown entities to deliver those elements of the strategy that can only be delivered – or are best delivered – by a publicly-owned entity: from delivery of regulatory functions including enforcement (eg, Commerce Commission and FMA); to the provision of science (CRIs); to provision of injury prevention and rehabilitation (ACC); to promoting innovation and internationalisation (eg, Tourism Board, Callaghan and NZTE).

In assessing effectiveness and efficiency, our focus has been on how MBIE manages its relationships with these Crown entities to ensure their activity is orchestrated and aligned to deliver those operational outcomes both necessary to achieve the goals in MBIE's Outcomes Framework and need to be delivered by a Crown entity. While the relationship is described throughout the State Services as 'monitoring', this is an incomplete and, in many ways, a misleading description of the relationship necessary to secure alignment and generate the most value for New Zealand. It focuses too much on those things that a well-functioning Board should do and ignores many of the areas where a Ministry can add most value.

MBIE monitors 23 Crown entities and 'schedule 4A' companies and supports monitoring undertaken by Treasury and the Ministry of Education for five other agencies. In addition, MBIE undertakes appointments and has oversight over a further 36 statutory entities and advisory bodies. It has 45 staff involved in monitoring across four branches. A four-person Crown Entity Governance Unit has been established to provide this devolved approach with: an MBIE-wide framework; leadership and capability to support monitoring excellence; and a best practice board appointments function.

MBIE's role is still largely focused on traditional 'monitoring' elements: ie, advising Ministers on the expectations that should be set for the entity; monitoring performance against those expectations; monitoring expenditure to ensure that the entity stays within budget; and ensuring that money is used for the purposes for which it was appropriated.

MBIE recognises that this is an area where much more needs to be done to improve this traditional role. Central agencies are looking for this function to provide more assurance, risk and longer-term system reporting to add value to entity performance.

The Crown Entity Governance Unit is undertaking a review aimed at developing a new monitoring framework early this year. MBIE's Self-review says this will "... signal a directional shift in MBIE's monitoring approach". The aim is to provide stronger support and expertise to entities and is focused on improved clarity of roles and responsibilities; more effective engagement on strategy; better targeting of monitoring effort on risk and opportunity; more consistent and streamlined routine monitoring and appointment processes and supporting capability development initiatives and companion tools.

While these changes will help improve the monitoring function, MBIE should take the opportunity for a more fundamental recasting of its relationship with Crown entities. There are four areas that are not identified in the current monitoring framework review that would help MBIE add even more value from this function:

- a If MBIE is going to clarify roles and effectively engage early in entity strategy, then it needs to ensure that policy is clear and supports the desired outcome and that the entity understands where it can add most value as a publicly owned entity, ie, the logic for why a publicly owned entity is required to intervene and what sort of interventions are value adding. Moreover, this policy and intervention logic needs to be relevant enough to provide useful guidance in making operational decisions. For example, the recent PIF Follow-up Review of NZTE identified the capital area as one where lack of clarity around policy and intervention logic was hampering effective execution. Moreover, the whole design of NZTE's offshore footprint is based on an 'implicit' intervention logic. Other countries with a more explicit view of where similar agencies add value have a different offshore footprint. Currently, entities are involving themselves in policy because they need a more useful policy environment or, perhaps worse, are defining their intervention logic implicitly in the operational decisions they are required to make to do their jobs.

Delivery of Core Business

- b When the policy and intervention logic provides a clear framework for entity operation, this could be used to provide entities with a longer-term set of government expectations and guidelines than the current ministerial letters of expectations. Indeed, this approach is under active consideration for ACC, where publication of a Government Policy Statement would set the parameters for a long-term funding strategy, similar to the current approach taken with the New Zealand Transport Agency. While it makes sense to apply this approach initially to the largest entities – especially those like ACC that need to take a long-term view – it could be usefully applied more broadly.
- c A longer-term framework would also provide the basis to allocate far more of the governance and monitoring of entity operation to entity boards, where it really belongs. MBIE could then focus on ensuring that the framework was being applied and was delivering the expected benefits and intervening with ‘support and expertise’ if boards were having trouble applying the framework or where the expected results were not eventuating. This provides a good basis for varying the intensity of monitoring and intervention based on entity performance and risk.
- d By focusing in the areas in c) above, MBIE is more likely to discover where there may be weaknesses in the policy or the intervention logic framework, and be better placed to make improvements in that framework. This is especially so in those cases where the policy or intervention logic does not provide useful operational guidance; when its application raises new issues or when the expected results are not produced. This requires a different sort of relationship with the entity – one that is more like a partnership, where MBIE and the entity are working together to achieve an outcome desired by both.

MBIE is to be congratulated for taking the initiative to establish the Crown Entity Governance Unit and to use it to address long-standing concerns about the effectiveness of the traditional Crown entity monitoring role. Hopefully the review the Unit is undertaking will provide the ‘directional shift’ needed to improve both effectiveness and efficiency in a way that can be applied more broadly in the State Services. However, the really big lift in the value that could be added to the relationship with Crown entities is likely to require this directional shift to also address the four issues listed above.

Regulatory impact

How well does the agency exercise its stewardship role over regulation?

Performance Rating: **Needing development**



MBIE has primary responsibility for designing and overseeing at least 16 regulatory systems and significant responsibilities in relation to many more. The total stock of MBIE’s regulation is 1360. Its current regulatory plan is to amend 57 items, introduce 26 items and repeal nine items during 2013/14.

The quality of MBIE’s Regulatory Impact Statements (RISs) assessed in the most recent Castalia evaluation has increased from a low base. The quality of MBIE’s significant RISs has generally been very good, with only two recently rated ‘does not meet’ relating to a single housing matter. The external evaluation results of a sample of RISs indicate that between the 2012 review and 2013 review the proportion of the its RISs meeting requirements rose from 17% to 50%. From 2011/2012 to 2012/13, the proportion of ‘significant’ RISs meeting requirements fell slightly from 80% to 73%.

Treasury identified a number of gaps in MBIE’s regulatory systems, particularly in the related areas of policy oversight, monitoring outcomes and evaluation and review. MBIE is taking some steps to

improve its systems and performance of its regulatory systems. Particular areas of focus have been on the management of the health, safety and environmental risks associated with petroleum and mineral extraction and in the area of labour markets, capital markets and product markets. MBIE has had some notable success in areas, such as health and safety and capital markets. In some important areas, MBIE's progress has been less effective and the opportunity exists to bring a consistent standard of performance across its responsibilities. MBIE has started with its regulatory systems reviews. Although this work has been slow to get off the ground, it has started to deliver useful insights.

To be 'well placed' as an intelligent regulator, regulation needs to be principled, evidence-based and well articulated. In particular, MBIE needs to:

- bring coherence to its regulatory approach across the micro economy through identifying clear regulatory principles that will underpin its approach to regulation in a systems sense. These principles must be grounded in MBIE's overall microeconomic framework and understanding of institutional economics
- ensure the regulatory instruments chosen are premised on a deep understanding of the problems being addressed and be solutions/systems focused, rather than symptom focused. If thinking is focused on outcomes, then all levers/instruments will be considered, not just regulation. Understanding the dynamics of different phases of development across sectors/markets and across the business cycle is a vital component of intelligent regulation. For example, it is likely a market where competition is emerging requires a different regulatory system than one where competition is limited or mature. Similarly, some areas of market regulation and policy are likely to matter more at different stages of the business cycle. Understanding the stage of development of a market or sector and the drivers of performance in different parts of the economic cycle, substantially improves the ability to target appropriate interventions to risk and reward
- get much closer to key stakeholders, understanding the drivers, including incentives, of firm and system results and fully explore the likely impacts of any change. This will require new capability in some areas, new ways of operating and a change of orientation, from protection to growth enhancing while doing the things that grow the social license to operate. To achieve the social license to expand growth opportunities, much more base line information to inform public debate and ensure regulations reflect community expectations is required
- capture far more value-add from its regulatory approach by aligning its regulatory practice, including its enforcement functions, to MBIE's overall objectives in a sector. Even where regulations are not due to be reviewed or substantially changed, the regulatory practice of MBIE can be improved through closely aligning it to support wider objectives in each part of the microeconomic system MBIE is accountable for
- find innovative ways to monitor and measure whether regulatory system performance is growth-enhancing. Initial focus should be on making a credible stab at this rather than driving for perfection
- interrogate past regulatory implementation experience and ensure it learns lessons across its portfolios from incidences such as Pike River and finance company failures.

Since the PIF diagnostic was undertaken, MBIE has prepared a draft Regulatory Narrative, which if well implemented provides a framework to address the matters raised and would support a 'well placed' rating in the near term.

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: **Well placed**



Leadership and Governance

How well does the senior team provide collective leadership and direction to the agency?

Performance Rating: **Weak**



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: **Needing development**



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?

Performance Rating: **Needing development**



Review

How well does the agency encourage and use evaluative activity?

Performance Rating: **Needing development**



MBIE's purpose is to 'grow New Zealand for all'. The primary target is to increase New Zealanders' real household income by 40% by 2025. This entails a lift in median household income from \$1,300 to \$1,800 a week. MBIE's supporting targets relate to doubling labour productivity growth, increasing the exports to GDP ratio, reducing unemployment and making housing more affordable.

The purpose and targets have been well received by staff and stakeholders, some of whom were involved in its development. They are now the subject of active internal discourse as staff try to translate them into meaning and sub-targets for their own teams. Staff appear energised and excited by the extent of the ambition. From an internal viewpoint, however, the ambition is not yet fully fleshed out into a strategy to deliver on targets, nor is it yet cascaded into management reporting dashboards or staff performance agreements, although this work is in progress. From an external viewpoint, too many stakeholders told us that, while they were aware of the vision and target, they did not yet understand what MBIE stood for or what the key pillars of the strategy to deliver on the target were.

MBIE sensibly undertook the initiation of its portfolio in parallel with the purpose and strategy work to get momentum on the game-changing contributors to the targets. At the moment, however, these are a list, rather than a balanced investment portfolio reflecting strategy and targets. There is as yet no sense of the degree to which the portfolio priorities are sufficient to reach the targets. This means there is no sense of what the gap might be between what the current portfolio will deliver and what is required. Understanding the size of this gap will determine the investment needed in discovery and innovation of new initiatives, in partnership with stakeholders.

The portfolio is at the heart of the business strategy and must now be actively linked to it so staff and stakeholders understand and share a feeling of urgency around the key drivers for meeting the collective ambition. The purpose and strategy work is a great start but it urgently needs to be brought to life through more active portfolio management.

MBIE has plans for better communication of the new purpose through to the front line to improve line of sight. Efforts are being made to tell the story of the strategy through multiple channels. Early signs are that staff and stakeholders find the purpose very compelling. If it is to meet our other two tests of being unifying and discriminating, it will be important to keep communications purposeful and pragmatic. Strategy is only made real when people at all levels are made accountable for targets that relate directly to it and when the organisation uses it to trade off between competing priorities and to inform disinvestment decisions.

Some strong work has been done by SLT and MBIE has the beginnings of a galvanising and exciting story. To use it to lift organisational performance to the next level, unify staff across work groups and to increase the pace of progress, MBIE now has to:

- more clearly understand and communicate how the portfolio links to the targets and identify the size of the 'unsolutioned' gap to drive more refined prioritisation and the discourse with stakeholders needed to support co-creation of 'gap filling' ventures
- urgently cascade, outcome-based targets as the basis for management reporting and staff performance management. A simple balanced scorecard approach would be ideal
- do the hard thinking on the operating model necessary to give effect to the strategy. The 'why' for MBIE is now developed, some of the 'what' is in place, but the 'how' is as yet undeveloped to a consistent level of detail. Staff at all levels should be very inclusively enrolled in this, both to ensure a strong linkage to character and behaviours and to militate against them defaulting to legacy ways of working.

Leadership, Direction and Delivery

With regard to leadership and governance, MBIE's very able SLT has been stretched multiple ways with the need to develop and drive purpose and strategy, heighten their own internal visibility, govern the portfolio, invest in more strategic relationships with stakeholders and service 14 Ministers well. Clunky corporate systems and the need to recruit and settle key tier three positions has been a distraction and seems also to have made teambuilding slower than expected. There needs to be stronger collective responsibility for results and a more active approach to ensuring SLT delivers more than the sum of its parts.

On this latter point, recent feedback to SLT from tier three managers suggested more needed to be done to ensure tough conversations and tradeoffs happened at whole of SLT level, rather than bilaterally, that SLT needed to make harder prioritisation decisions and that key management concepts, such as 'tight-loose-tight' needed to be made real.

Among the lowest-rated statements in the mid 2013 pulse survey were, "senior leadership clearly communicates the direction in which the organisation is going" and "change processes in this organisation are managed well".

To make progress on these areas, SLT must find ways to put hygiene matters, especially financial and other management reporting and basic issues with servicing ministers, to bed as quickly as possible to maintain a consistent focus on the development of the microeconomic strategy, operating model development and implementation and the execution of portfolio priorities. MBIE's ambitious targets cannot be achieved unless SLT is able to have its collective vision firmly on the horizon.

SLT is also beginning to work as a collective to bring the new operating model to life. This entails thinking about how every aspect of the business must be designed and run to execute on strategy. Starting by asking MBIE's wide array of customers what they think will be required to give effect to strategy and meet the targets. This customer feedback will help to size the extent of the change from current to future state. Customer-driven insights will drive operating model design, as well as help SLT deepen its relationships with key stakeholders.

To lift the rating here SLT should consider:

- undertaking some teambuilding activity, perhaps in conjunction with tier three managers, to ensure SLT is working at the right level and collectively. A shared coach might assist as an ongoing mechanism to develop a joined-up style
- making a call on what will be needed to put hygiene issues to bed fast and invest whatever resources it takes accordingly
- commissioning voice-of-customer analysis to support a fast-track approach to operating model development
- finding more efficient and effective approaches to ministerial servicing to strengthen the accountability pull on third tier managers and reduce time spent troubleshooting for service shortfalls
- refining the governance framework that sits across the portfolio of game-changers, as described in the Four-year Excellence Horizon.

MBIE has done some work on internal culture and values, called character and the new framework, '*Shape, Collaborate, Deliver*'; is very visible on walls throughout the organisation. A recent stakeholder survey tested how well staff displayed the MBIE character and scores ranged from 61% for Collaborate (supporting and partnering), 50% for Shape (shaping the agenda and being ideas driven), to 47% for

Deliver (can-do attitude, urgency, risk taking and ongoing learning).

SLT is aware it is critical now to bring these characteristics to life by modelling them at all levels of leadership and ensuring they are reflected in staff development, performance and accountability management. They are currently being used as the organising principles to guide the new approaches for leadership development, learning and development curriculum, competency frameworks and performance management.

MBIE's work on the characteristics is a promising start but only a start. MBIE's leaders need to embed these through their own behaviours and modelling, as they are the critical glue that holds diverse and distributed business units together in service of the ambition and targets. The new behaviours need to be brought to life to ensure strong alignment from SLT, to the immigration officer on the front line in Beijing to the customer engaging with the Companies Office. It is this alignment that causes staff to give of their discretionary effort and to be confident about innovating and taking risks.

MBIE is largely structured on the basis of an organisational design philosophy intended to bring policy closer to operations and facilitate integrated approaches to interventions. The legacy silos have been largely dismantled, with the exception of Immigration, where the Vision 2015 programme required continuity of structure. To many stakeholders the current position still feels like a federation, as opposed to a mature and unified institution.

Critical to taking this to the next level from a structure and behaviours point of view will be more explicit development of the integrative mechanisms across the organisation to harness the power of the diverse intellectual perspectives and levers MBIE has at its disposal. This does not mean a move to matrix management but rather, careful thought, as part of the operating model development work, on governance or other mechanisms for improved alignment.

Some progress has been made with the formation of internal centres of excellence and communities of practice. These are as yet tentative and an early stage of formation. The key opportunity here is the portfolio work.

Roles and accountabilities in the new MBIE remain unclear. The proposed 'tight-loose-tight' model needs to be implemented. Outcome-based performance measures, reflected in management reporting and in balanced scorecards, will help with this.

MBIE has created a Research, Evaluation and Analysis Branch (REA), whose role is to deepen MBIE's understanding of markets, customers and opportunities and provide an evaluative loop for new initiatives. The work programme of this group feels at present like a list (90 projects) transferred from legacy agencies. Rather than sit the portfolio activity on top of this work programme, the portfolio needs to drive better prioritisation and much more focused work. If MBIE is to be the lead agency for New Zealand's economic development and execute bold and innovative ideas to get a step-change in the key microeconomic indicators reflected in its targets, then a sophisticated approach to evaluation and organisational learning is vital.

The top priority in this area is quantification of the benefits from the portfolio programme projects in terms of their contribution to the gap between their cumulative effect and the targets. Once the gap is populated with innovation projects, rapid prototyping style, 'fast learn, fast fail' evaluative loops are critical to agility. The REA needs to lead the analytical effort through a dynamic innovation and design lens, as opposed to a more traditional research and evaluation lens.





External Relationships

Other areas that would repay greater investment of effort are:

- better codification of information to inform a shift to intelligence gathering and analysis. On the basis of improved intelligence, MBIE's service delivery arms can better target their efforts to areas of maximum risk or opportunity. MBIE is very immature in the intelligence, as opposed to information space
- better cost allocation methods so the full cost to serve is well understood in each core service area and so this understanding can inform decision-making around investment, disinvestment and future cost models
- a stronger evidence base underpinning regular management information reporting and project governance.

ORGANISATIONAL MANAGEMENT

Part Two: External Relationships

<p>Engagement with Ministers</p> <p>How well does the agency provide advice and services to Ministers?</p>
<p>Performance Rating: Needing development</p> 
<p>Sector Contribution</p> <p>How effectively does the agency work across the sector?</p>
<p>Performance Rating: Needing development</p> 
<p>Collaboration and Partnerships with Stakeholders</p> <p>How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?</p>
<p>Performance Rating: Needing development</p> 
<p>Experiences of the Public</p> <p>How well does the agency understand customers' and citizens' satisfaction?</p>
<p>Performance Rating: Well placed</p> 

In terms of its engagement with Ministers, MBIE provides advice and services to 14 Ministers, with funding spread over 12 Votes, with 170 appropriations. While this environment creates complexity for MBIE, it can also be cumbersome and difficult for Ministers. There are a number of important mitigating factors, however, that should assist MBIE to provide consistent service and performance to Ministers.

For example, through the BGA, Ministers have set collective goals, ensured priorities and strategies are joined up and meetings take place monthly to ensure timely decision-making and accountability for progress. Government is now looking to MBIE to continue to harden up its BGA advice to drive outcomes.

Another leverage point for MBIE relates to the ministerial expectation that underpinned its creation: to ensure there is coherence across the policy and operational areas of government's business facing activities. MBIE has a broad space to operate in and government is looking to MBIE to increasingly leverage this. This will require MBIE to identify where there is not a coherent face to business and fix it. To achieve this, MBIE needs a culture of excellence and strong microeconomic frameworks that are principles based, well evidenced and articulated. Its goal should be to be an intelligent regulator, whose approach is anchored on robust and clear regulatory principles and a deep understanding of those who are regulated. Without this MBIE is seen to risk operating at the opportunistic rather than strategic end of the spectrum, reacting rather than setting the agenda. To overcome this, MBIE needs to accelerate the pace at which it becomes truly business facing.

External Relationships

A number of areas demonstrate MBIE has recognised opportunities to work in new ways, such as the contribution immigration can make to broader economic objectives, the role of government in procurement in the Christchurch rebuild, and work on telecommunications spectrum. On the other hand, a number of examples were provided where there is still a disconnect across parts of MBIE and where the value drivers or the things that really matter have not been identified. MBIE was acknowledged for being responsive, commercial and strategic in parts of the agency, while still non-responsive, reactive and bureaucratic in other parts.

MBIE seeks feedback directly from Ministers on their satisfaction with its services, using a scale of one to ten. Last year's *Annual Report* records the average score was 7.1, with a wide distribution around that. From our own enquiries the main concern relates to variable service across ministerial portfolios. This is evidenced by a perception that the responsibility for manoeuvring across different parts of MBIE is now the responsibility of Ministers, rather than MBIE presenting with a senior leader who can deliver all of the relevant parts of MBIE to each portfolio Minister. This has not been helped by significant staff changeover and the time taken in developing strategic frameworks, priorities and subject matter expertise.

Common to other areas of government, questions were raised about how much reliance Ministers can put on Crown entity monitoring. We address this issue elsewhere.

MBIE is recognised for handling the implementation of change well in areas such as immigration but in other areas it was noted MBIE had failed to foresee some predictable implementation issues and as a consequence unnecessarily raised public concern and/or required remedial action, such as in the petroleum and minerals sector.

To be 'well placed' in the future, MBIE needs to:

- provide each Minister with a senior leader who can deliver MBIE for that portfolio, to the required standard of timeliness, effectiveness and overall performance
- develop robust microeconomic frameworks, clear regulatory principles and a deep understanding of markets and business to deliver coherent sector and system performance advice to the Government and services to the public
- satisfy government that it has well-evidenced and articulated business strategies and an operating model that can deliver on them. MBIE, presenting a coherent business-facing arm of government, would then create the opportunity to substantially rationalise the MBIE Vote and appropriations structure, possibly moving to a multi-category appropriation.

In terms of its role within the economic development sector, MBIE needs to enlist the support of others to improve the return on the public's substantial investment in areas it is responsible for, as well as improving government services and making government easier to do business with. There have been a range of sector and system initiatives aimed at improving outcomes, including:

- work with Treasury on a shared economic framework
- a shared environmental scan with the science and innovation and tertiary education areas
- functional leadership for procurement services, which has realised \$41.773 million in savings from all-of-government contracts in 2012/13
- progress on BPS Result 9, as reported elsewhere.

The focus of MBIE over the last year has been to set the platform to realise the synergy benefits from bringing much of government's business-facing activities into MBIE. It is important that MBIE now moves quickly to collaborate with others to achieve government outcomes. There are substantial opportunities in a number of areas, such as skills, innovation and employment as the pace of growth accelerates and broadens. The social sector, particularly the Ministries of Education and Social Development are critical to ensuring the up-turn in the economy is not adversely impacted by constraints on the supply side.

In the case of local authorities, the MBIE 2013 Stakeholder Survey indicates a positive level of satisfaction across those surveyed in the quality of MBIE's work. MBIE has put considerable emphasis on the rebuild of Christchurch and many issues facing the region fall within MBIE's span of influence. While Government recognises that some good ideas have come from MBIE, it will need to consolidate its effort to help drive these ideas forward. Housing, building and construction, procurement, immigration, employment and insurance provide fertile ground for greater progress to be made with other key players involved in the Canterbury rebuild.

There is considerable untapped opportunity to partner more effectively with Auckland on economic development opportunities and take those lessons into other regions. Both Auckland and Christchurch present opportunities for MBIE to try new ways of operating, getting much closer, much earlier to partners and co-creating solutions. To do this well, MBIE and its partners will need to focus their collective effort on a few things that will drive value, identify common areas of interest and understand the value that each needs out of a more strategic relationship.

Sector collaboration and partnership will be particularly important to realise the benefits from accelerating Māori economic development, particularly given MBIE's starting place. MBIE has much to learn from organisations, such as MPI and NZTE which got an earlier start.

Crown agencies are a rich territory for MBIE to leverage better sector outcomes. MBIE's 2013 Stakeholder results confirm that of all stakeholders, Crown entities were the least satisfied with their interactions with MBIE. Looking forward, MBIE needs to engage early with Crown entities to agree sector goals and strategies and work with them as true partners, co-creating value. This is discussed further in Crown entity monitoring.

Central government agencies reported more than half found the quality of work at MBIE good or very good in the 2013 Stakeholder Survey. In our interviews, agencies indicated confidence in many of SLT, but queried follow through in the middle of the organisation. There was also a desire to see MBIE show greater leadership, build evidence-based, principle-led economic frameworks to underpin the identification of priorities and accelerate the pace to deliver outcomes.

Looking forward, for MBIE to be 'well placed', it will need to prioritise its sector and system activities. Fundamentally, every interaction must be premised on value creation or time should not be devoted to it. This can only happen if MBIE's overarching priorities are clear and there is good line of sight between outcomes sought and the sector contribution required to achieve it. MBIE needs to decide when it will lead sector outcomes and when it is not leading but participating. It must do so early and in an engaged and committed manner, rarely adopting an observation role only.

MBIE must collaborate and partner with its stakeholders and should behave in a business-like manner. It should be innovative, efficient and focused on delivering results through partnering and leveraging its comparative advantages. MBIE has a wide range of stakeholders to potentially collaborate with – other government agencies and Crown entities, local government, businesses, industry organisations, unions and employer groups, consumer groups, Māori, scientist and educationalist, to name a few.

External Relationships

The June 2013 Stakeholder Survey provided early feedback on MBIE's progress. The response of the private business and business/industry representative bodies was around 68% 'good' or 'very good' in terms of quality of work. In collaboration, deliver and understanding of impacts on organisations performance varied significantly across business area. With respect to collaboration, ratings were very high from those engaging in tourism, economic development, consumer affairs, and ICT infrastructure, while ratings were more modest for health and safety and commerce and more modest again for science and innovation. In terms of effective delivery, 47% of respondents rated MBIE positively. Tourism, ICT infrastructure, economic development and Canterbury recovery were rated positively at around 70%, while just over 30% interacting with the commerce and construction areas gave a poor or very poor rating and over half did for health and safety. With respect to understanding impact of decisions on organisations, performance was rated positively by 47%, with only ICT, Immigration and Canterbury recovery ratings over 50%.

The survey also found that over 60% of respondents found MBIE was about the same as its predecessor agencies on these attributes, though the percentage of respondents who thought it was better was slightly higher than those that thought it was worse.

MBIE's Stakeholder Engagement Framework identifies a list of critical stakeholders and assigns lead responsibility for managing the relationship. Our own interviews suggest that stakeholders and partners, however, have had variable experiences with MBIE. On the positive side, some sectors, such as parts of the tourism sector, have been increasingly positive about their engagement with MBIE. More often, however, we heard that while a year ago there were encouraging signs, many relationships have stayed at the transactional end and have failed to develop into deep, strategic partnerships or have even receded.

Looking forward, to be 'well placed' MBIE needs to find new ways of operating with stakeholders and partners on strategically important ideas and initiatives.

The water reforms are just one example of how to engage others in co-creating solutions to difficult issues. While MBIE has trialled communities of practice to work horizontally, this has an inward rather than outward focus. It is vital that MBIE accelerates its outward-facing engagement and that it has an operating model to deliver the agency as a single face to stakeholders and partners.

As the government business-facing agency, MBIE needs to ensure it engages effectively with the wider community to expand the space available to grow the economic and social potential of New Zealand. It also provides a range of services to the public and monitors a wide range of agencies that provide products and services to the public. To be successful, a 'customer-centric' approach is critical to success and will require an increasingly responsive and sophisticated capability in MBIE and its associated Crown entities.

MBIE's INZ and Market Services groups survey customer satisfaction and consistently meet or exceed customer satisfaction standards. Survey information is also used to inform service improvement. There are some early examples of improved products and services, including:




- progress on some aspects of Result Areas 9 & 10, as discussed elsewhere
- the Intellectual Property Office of New Zealand and the Business Registry, which won IPANZ Gen-I Public Sector awards
- early implementation of components of the Immigration Vision 2015 programme
- improvement to the transaction processing systems of MBIE, such as the development of a new tenancy bond system

- the tenancy fast track pilot
- changes to the 2013 science investment processes.

The work that MBIE has done that directly aims at making government easier to do business with has been strong in some important areas. The business re-engineering implicit in Immigration Vision 2015 is also designed to deliver improved services to its customers. Looking ahead, to be consistently 'strong' on engagement with the public, MBIE needs to take a targeted and granular approach to understanding the voice of the customer, segmented appropriately to discover what drives value across its portfolio. This deep understanding of the customer would then form the basis for building a customer-centric operating model at MBIE.

ORGANISATIONAL MANAGEMENT

Part Three: People Development

<p>Leadership and Workforce Development</p> <p>How well does the agency develop its workforce (including its leadership)?</p> <p>How well does the agency anticipate and respond to future capability requirements?</p>	
Performance rating: Weak	
<p>Management of People Performance</p> <p>How well does the agency encourage high performance and continuous improvement among its workforce?</p> <p>How well does the agency deal with poor or inadequate performance?</p>	
Performance rating: Needing development	
<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>	
Performance rating: Needing development	

In the post merger period, MBIE has spent considerable energy weaving the threads of four different legacy approaches to employment relations, organisational development (OD) and human resources (HR) management into a new pattern. It is essential to forward progress that MBIE puts HR integration issues behind it and focuses on the key areas of strategic gain. HR/OD issues are taking too long to resolve and are frustrating for both staff and managers.

With the benefit of hindsight, it might have been preferable to have taken the view that what was required was less about integrating existing models and more about building a ‘future fit’ new institution from scratch. Building entails a very different conceptual lens than integrating and is probably easier in the long run. Currently, transactional HR is improving, though it is far from the silent running of core processes that characterises mature distributed organisations. Progress on all areas of strategic people management, however, has been hard and slow work. Against the forward-looking standards PIF demands, MBIE scores poorly overall, albeit with pockets of promise and good practice.

Workforce and leadership development have been undertaken in the context of significant churn. Since 2012, 219 permanent staff have joined MBIE, along with 230 fixed term employees. Turnover, especially in staff with less than two years’ tenure, is high. Some of this has been planned or is the necessary result of the merger and has provided the opportunity to lift skills and capability. In such an environment, it has been very challenging to gain traction on workforce initiatives.

These challenges have been exacerbated by weak HR Management Information Systems. Payroll data, only recently integrated, remains of variable quality. Management information and reporting issues have been an irritant to overall progress.

Over the last 18 months, a leadership action group has been established, leadership development and competency frameworks developed and induction programmes for new managers put in place. Unfortunately, these have not been developed against the broader backdrop of a medium-term workforce plan, which is now under way. Over the next six months, MBIE hopes to develop its first workforce strategy, entailing:

- a comprehensive view of future capacity and capability requirements
- metrics for monitoring people management
- a framework for ongoing workforce planning
- a risk framework around capability
- a management development framework.

In the absence of this top-down view, MBIE has been managing HR issues reactively rather than working to a strategic end game. The extent of the fire fighting required has made it difficult to establish a coherent business partnering model with managers, including raising the awareness of internal customers to lift their expectations.

Systematic leadership development for the middle and frontline managers is not in place – reliance has been put on individual development planning. These managers are crucial to translating the strategic big picture for staff into meaning in their day to day work. As noted, staff were positive about MBIE's strategy and purpose but struggled with line of sight for their own work.

Another key area for capability development is the need to grow and recruit staff with skills in strategic stakeholder management. Confident engagement with customers, commercial instincts, boldness and the ability to co-create solutions to complex economic development challenges are critical skill sets for MBIE, given the nature of the overall performance challenge described at the beginning of this Report.

Prioritisation is a pressing issue now, as there is so much to be done to bring MBIE's people management to a more strategic level and the work programme is extensive and slow. Managers expressed frustration at the lack of support from HR. SLT needs to prioritise the few key people management improvements that will make the most difference to MBIE's success as an organisation and allow HR to better focus its efforts.

MBIE's people management cost structures, as measured by BASS results, are very high largely due to high-levels of contract HR specialists. This is to be expected in a post-merger environment but MBIE does not yet appear to be getting results commensurate with its investment. More stringent prioritisation would allow MBIE to get an improved return.

In performance management, MBIE inherited four different collective agreements, remuneration structures and performance management philosophies.

A new performance management and remuneration framework is now in place, but significant challenges remain in aligning management behaviours. Regularised and good quality performance feedback is patchy. This current state is incongruent with MBIE's aspiration to apply a 'tight-loose-tight' management style. Baseline metrics are undeveloped in most areas and accountability for

People Development

results, as measured by outcome-based performance metrics, is variable at best. To make progress here, MBIE may need to adopt a simple balanced scorecard approach to underpin performance management, which would also greatly assist staff in gaining better line of sight to MBIE's vision and purpose.

Regarding staff engagement, MBIE has completed a number of pulse surveys and is shortly to undertake its first formal Engagement Survey. Results from pulse surveys, while variable across work groups, generally show very high-levels of ambivalence amongst staff, with the most recent having an overall score of 3.6 out of 5, which means 'neither agree nor disagree'. The highest rated statement was "I am willing to put in extra effort to get the job done". The lowest agreement was with the statement "Change processes in this organisation are managed well". This accords with our impression of highly motivated and capable staff, doing things the hard way because they are struggling both to prioritise their efforts and to see the broader strategic context for their work.

MBIE leaders should view this ambivalence as a time-bound opportunity to better enlist staff in the strategy. Staff understand and support the overall vision and purpose but cannot yet all see how it relates to them. Enrolling them requires strong and purposeful management, particularly at the frontline level, as noted. Supporting leaders to do this should be a priority for MBIE's People and Culture team.

To improve its rating in these areas, MBIE should focus on:

- completing its workforce plan and applying a 'building an institution' lens as opposed to an integration lens to the work
- better prioritisation and portfolio management of key HR/OD initiatives. These must be a pragmatic selection of the small number of key things that will make the most difference. Rigorous programme management disciplines, such as 90-day plans, must be applied to drive increased urgency and pace
- developing a balanced scorecard performance measurement and accountability regime that drives the 'tight-loose-tight' framework and improves line of sight
- investing effort in the development of frontline managers to assist in embedding the strategic vision and reducing staff ambivalence.

ORGANISATIONAL MANAGEMENT

Part Four: Financial and Resource Management

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: **Well placed**



Information Management

How well does the agency manage and use information as a strategic asset?

Performance Rating: **Needing development**



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: **Weak**



Financial Management

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

Performance Rating: **Weak**



Risk Management

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

Performance Rating: **Weak**



MBIE's focus is still on addressing inherited problems and merging four different finance, HR, technology and risk approaches, processes, systems and cultures into one unifying set that is fit for purpose. Much has been achieved in a relatively short period. While the right functional leadership is now largely in place, and plans well advanced for delivering a much improved service, this process is far from complete. Key elements of the current transition are not planned to be complete for some months, eg, finance is targeting June 2014 and consolidation of corporate systems should also be completed by then.

Even then, there will be a number of issues still to be addressed before these corporate services functions are able to supply reliable and timely data, let alone the sort of timely intelligence needed to support the quality of decision-making required for systematically superior effectiveness and efficiency. That will require a second round of improvement focused on expanding the available data and adding an analytical capability. That capability will need reliable, timely and standardised information and be able to turn that into business intelligence that provides real insight into customer preferences, as well as into policy and operational effectiveness and efficiency.

The BASS findings reinforce the extent to which these functional business support areas have not yet reached the level of operating efficiency or management maturity of a comparable State sector agency in steady state. MBIE's HR, Finance and ICT costs are well above their cohort median and its management practice indicators point to a capability maturity in management that is barely 'achieving' and falls well short of the standard MBIE itself is looking for. The OAG rankings in 2012/13 also point to a 'needs improvement' assessment across key areas, like financial management, control environment and system performance information. Recent reviews initiated by MBIE's finance team highlight a number of issues affecting internal controls and finance process and systems that need remedial attention.

While all this is understandable in the context of where MBIE is in its transformation it has a big job to do to create a unified department. We were also advised that an additional cause of high ICT costs is that many of MBIE's customer-facing systems need significant overhaul. However, it is also illustrative of the distance still to travel to reach comparable public sector standards, let alone superior public sector performance. While MBIE will always need to meet the standards required of a public agency, we have suggested elsewhere that government's business-facing agency will need to operate in a way that its stakeholders perceive as business-like if it is to be successful. This is likely to require an enhanced level of functional performance.

More thought also needs to go into realising the benefits of both the current planned improvements in functional support and, ultimately, the evolution to an intelligence-driven operating model. Realising these benefits will require managers – most of who have never been supplied the information and analysis required for systematically superior performance – to be given the training, leadership and discretion to use this information and analysis to its full potential. That is also likely to include more financial flexibility than is afforded by the current cost structure (although rebasing appropriations on real service costs will help). It is also likely to require a change in the relationship between the corporate support functions and the business lines, ie, a business partnership that is clear about who is best placed to do what.

The immediate task is to put the planned merger to bed by:

- a temporary 'surge' in the resource devoted to the current transition so that senior management can be confident that current plans will be delivered on time and to the desired quality
- improved communication with managers, so they know what to expect by when and have confidence in that prediction.

That will help address the high-levels of frustration amongst managers who know it is currently much harder to manage than it needs to be within MBIE. Not only are there serious deficiencies in the basic information available to them, they are not confident about when these deficiencies will be addressed. The more confident they are they will have what they need, the more likely they will be to ensure that they are better positioned to make the most of the planned improvements when they are delivered.

The finance area is 12 months into an 18 months' transition and – as suggested – still has a number of internal weaknesses to address. There are a number of significant changes that will be required before managers have reasonably basic tools; like reliable and timely activity-based costing and revenue forecasts and improved forecasts from Crown entities. While MBIE should be able to find the necessary savings to meet likely cost increases and compensate for known reductions in appropriation levels over the four-year planning horizon, there is still a significant 'unsolved' cost challenge. There may also be additional pressure to reduce costs in existing publicly funded areas from at least two sources:

- as MBIE refines its cost-to-serve data it may well find that it needs to reduce the current reliance on cost recovery from third parties
- to find savings in existing operations to fund investment in new activities needed to reach MBIE's goals.

Both these potential challenges are yet to be sized.

MBIE's financial assets are largely ICT systems and leasehold improvements, so asset management is not a major focus outside of the large IT projects undertaken from time to time. The governance of capital investment seems solid, with emphasis on benefit tracking and realisation as well as project risk management.

Risk management was immature in the constituent agencies and largely remains that way; especially outside the operational risk area (although even here risk management is typically focused on compliance and process rather than outcomes). While the key risks are identified, they are not consistently sized, mitigated or monitored nor is there a well-developed and repeatable escalation process when risks materialise. Some of these latter stages are done well and some are not; the risk culture across MBIE is uneven and the overall approach to risk still too ad hoc, rather than systematically managed and embedded across the business. SLT has struggled to express a risk appetite that will guide investment in mitigation. Risk assessment also needs to more clearly drive the audit plan. The risk and audit team is relatively small and all but two are new to MBIE.

While there has been good progress in improving the basic IT infrastructure and addressing issues around vendor engagement and management, there is still some way to go, eg, management's view is that MBIE now operates about 50% on a common platform. This 'technology infrastructure' phase needs to be completed and the emphasis shifted to improving 'information management'. SLT are aware of the need to increase the focus on improving access to data and information. However, it is still early days in building the information base and the analytical capability needed to support superior business performance. The relationship between this functional area and the business units is variable and still has some way to go to reach maturity. So, for example, while immigration recognises that its Immigration Global Management System project has much better chance of success as part of MBIE, WorkSafe decided to employ its own CIO on separation from MBIE.

MBIE has a Security Improvement Programme under way and has established an information security governance committee.

Taken together, the factors in this PIF Review suggest that MBIE has plenty of opportunity to improve its effectiveness and efficiency and will need to realise these opportunities to be able to deliver on its goals with the forecast funding track. While some of the required efficiencies have already been identified, eg, via consolidation and new technology, a significant challenge remains and some of that challenge remains to be sized.

Financial and Resource Management

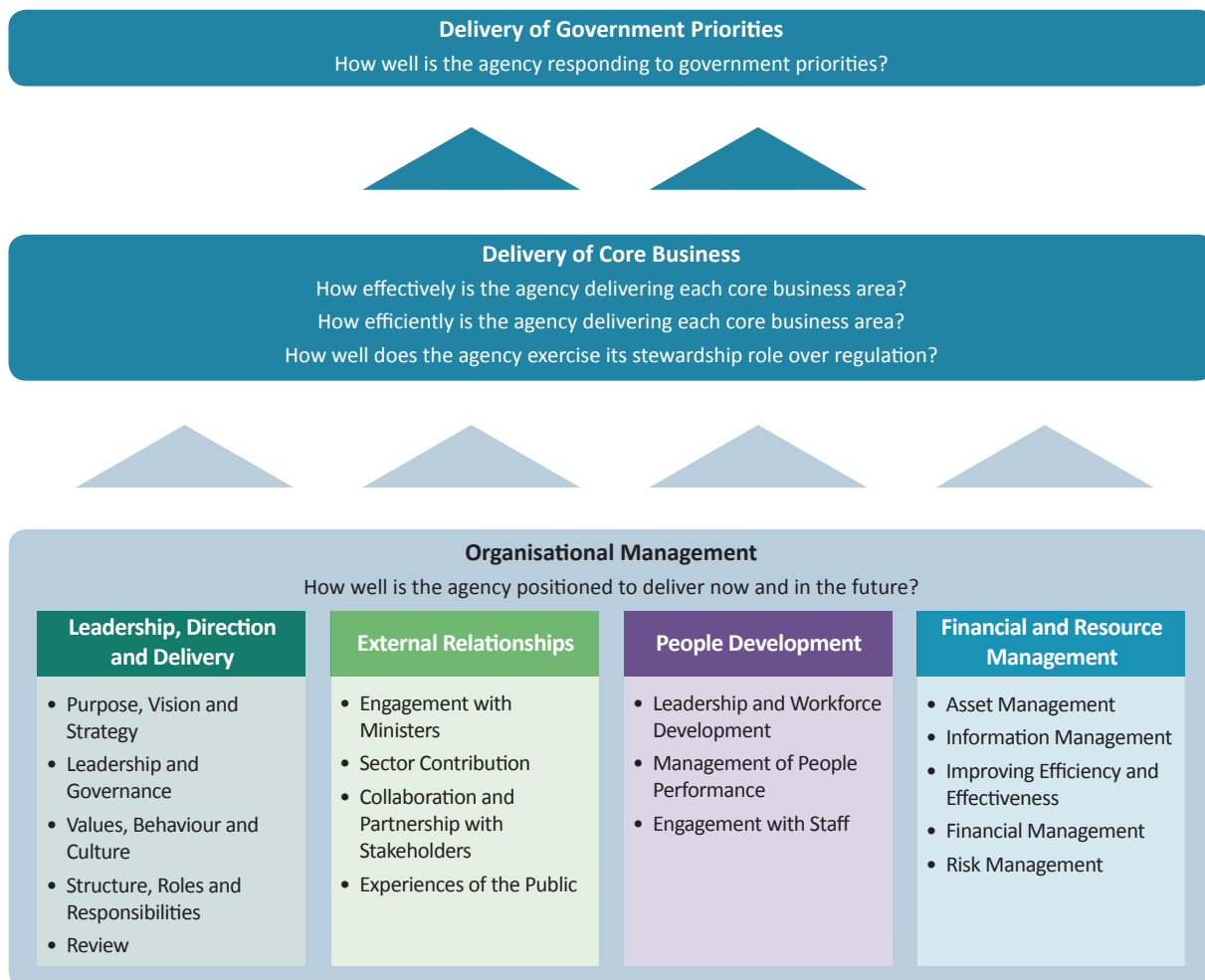
Better financial, risk and performance information and analysis will be required to:

- provide customer insight
- support prioritisation (eg, by better assessing cost of production and likely return on various elements of the business portfolio)
- discover what new initiatives are most likely to bridge the gap between what the current portfolio will deliver and what is needed to meet MBEs goals
- refine policy and operational decisions in light of what works and what does not
- improve operational efficiency.

Current plans to strengthen finance, risk, HR and information management will go some way to meeting this need but a second round of improvement will be required to support systematically superior performance. SLT will also need the training, leadership and discretion to be able to turn good information and analysis into systematically superior business outcomes.

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 exercise its stewardship role over regulation?

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 encourage and use evaluative activity?
External Relationships	Engagement with Ministers	13. How well does the agency provide advice and services to Ministers?
	Sector Contribution	14. How effectively does the agency work across 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 understand customers and citizens' satisfaction?
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 manage and use information as a strategic asset?
	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 identify and manage agency and Crown risk?

APPENDIX B

List of Interviews

This review was informed by input provided by a number of MBIE staff, relevant Ministers, Central Agency staff and by representatives from the following businesses, organisations and agencies.

Agency/Organisation
Arcblue Consulting Ltd
Auckland Airport Limited
Auckland University
Business New Zealand
Callaghan Innovation
Canterbury Chamber of Commerce
Canterbury Earthquake Recovery Authority
Council of Trade Unions
Deloitte
Education New Zealand
Licensed Building Practitioners Board
Māori Economic Development Panel (Advisory Board)
McConnell Group
Ministry of Foreign Affairs and Trade
Ministry for Primary Industries
National Institute of Soil and Water
New Zealand Trade and Enterprise
New Zealand Transport Agency
Ngai Tahu Tourism
Office of the Auditor-General
Plant and Food
Public Service Association
Shell New Zealand
Te Puni Kōkiri
Tourism New Zealand
Wellington Chamber of Commerce