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Outcome-focused Management in New Zealand

by

*Andrew Kibblewhite and Chris Ussher**

1. Introduction

This paper discusses the uses of outcomes in public sector management in New Zealand.¹ It begins by describing the overall public management system within which government departments operate, and how outcomes are used within this system. It then outlines some work that is underway to improve the focus on outcomes, and the way that outcomes are used within the system. The remainder of the paper is a series of case studies of innovative uses of outcomes in the New Zealand state sector.

2. Overall approach to outcomes-focused management

2.1. *New Zealand's public management model: An overview*

New Zealand's public sector management system has been in place for over a decade. The intent of the reforms of the late 1980s and early 1990s was to shift the focus from how much was spent, to what it was spent on and why.

The core of the model underlying the reforms involves ministers specifying the outcomes they wish to achieve and the outputs (and other interventions) they wish to pursue to achieve these outcomes. Policy advice informs this process.

When ministers have agreed the outputs to be supplied and the parameters² they should be supplied within, with departments and other providers, the departments and other providers have freedom to manage the resources allocated to them to produce the desired outputs. The other element of the system is accountability for performance: A requirement for managers to be held to account for their performance managing the allocated resources to produce the desired outputs. Policy managers, for example, need to be held accountable for the quality and responsiveness of the advice they provide to ministers.

* The Treasury, New Zealand.

To make the model work, decision-makers needed better information than was available previously. In particular, as ministers began to focus on outputs rather than inputs, there was a move from cash accounting to accrual accounting so that ministers, Parliament and other stakeholders had better information on how much it actually cost to produce the desired outputs. At the same time, government budgets began to be presented to Parliament in output terms rather than input terms. Although the government is required to state in the budget papers how the purchased outputs are linked to its desired outcomes, Parliament still appropriates explicitly for outputs.

An explicit part of the reforms, which relates to the output/outcome distinction, was to outline the separate responsibilities of ministers and chief executives. Scott, Bushnell and Sallee state:

*The approach taken in the New Zealand financial management reforms is to require chief executives to be directly responsible for the outputs produced by the departments, while the ministers choose which outputs should be produced and should therefore have to answer directly themselves for the outcomes.*³

This vision has not been realised as completely as was originally envisaged. It illustrates, however, the central role that outcomes played in the financial management reforms and play in the public management system. Conceptually, the New Zealand system focuses on outcomes. There have, however, been difficulties integrating outcomes into public management, principally because it is hard to specify, measure and manage for outcomes. Work continues to address these difficult issues.

2.2. Strategy setting

2.2.1. Whole-of-government strategy

The government sets the highest-level outcome goals. The Fiscal Responsibility Act (1994) requires the government, in the Budget Policy Statement, to:

*specify the broad strategic priorities by which the government will be guided in preparing the budget for that financial year.*⁴

Since the mid-1990s, this requirement has been met by various sets of strategic priorities under a variety of names. There have been *Strategic Result Areas* and *Strategic Priorities and Overarching Goals*. Currently, there are *Key Government Goals to Guide Public Sector Policy and Performance*, which are attached as an annex.

In general, these strategic priorities have not been goals as much as statements of broad direction. They are not tightly specified, and no targets or quantifiable measures have been developed to monitor progress against them.

2.2.2. Outcomes in the budget process

The high-level strategic priorities have been used as a prioritisation tool in the budget process. As noted above, Parliament appropriates for outputs. The Public Finance Act, however, requires ministers to identify in the estimates (ministers' requests to Parliament for appropriations):

*the link between the classes of outputs to be purchased by the Crown and the government's desired outcomes.*⁵

Current practice at making this link is variable. For the most part, it has been done in a cursory fashion merely by asserting that output *a* contributes to outcome goal *b*. Ministers are not required to demonstrate the link or to provide targets for outcome performance. Also, because there is a relatively high number of ministerial portfolios and departments, few key goals are the responsibility of a single minister or department.

The requirement to link outputs to outcomes in the estimates is not the only way outcomes feature in the budget process. Most ministerial scrutiny of expenditure in the budget process is of new spending proposals and that scrutiny explicitly addresses whether the new expenditure is likely to contribute strongly to achieving outcomes.

Priorities for new spending are managed using a fiscal management tool called the fiscal provisions. The Fiscal Responsibility Act (1994) requires the government to be transparent about its short-term fiscal objectives, so each year it must outline how much more it intends to spend for that year and the two following. Informally, this statement of fiscal intentions is built upon a fiscal provisions framework that sets the level of additional discretionary government expenditure (there are separate provisions for capital and operating expenditure). The fiscal provisions limit the amount the government can spend on new policy decisions.

The combination of the fiscal provisions framework and the broad strategic priorities is a powerful prioritisation tool. Together, they set a transparent budget constraint, and outline what the highest priorities are within that constraint. Since demand for funding exceeds supply, there are incentives for ministers to demonstrate that proposed new expenditure is worthwhile and will contribute to the government's outcomes. Ministers are required to indicate how the proposed new intervention will be evaluated. This is a new requirement, and so can be expected to yield more useful information as time passes.

Few formal processes exist to assess the value for money of baseline expenditure (as opposed to new spending proposals), although that is changing. In 2000, and again in 2001, Treasury has run a *Value for Money* process to identify opportunities for reprioritisation within existing departmental baselines for high spending portfolios. In particular, this is a chance for ministers to work with

officials to identify spending that may not fit closely with their priorities. Lower priority expenditure within a portfolio then becomes available for funding higher priorities.

Parliamentary scrutiny of the budget and of departmental performance, *ex post*, is principally performed in select committees through the Estimates Review and the Financial Review processes. The standard questionnaire that departments are required to answer for select committee examination asks for information on how outputs contribute to outcomes.

In summary, outcome goals inform the budget, particularly for the allocation of new expenditure, but increasingly for expenditure within baselines too. These outcome goals are not usually accompanied by outcome measures in the budget documents themselves.

2.2.3. *Departmental strategic planning*

The government's high-level goals have been translated into departments' planning through a small number of "key priorities" (previously know as "key result areas"). Since the high-level goals have generally been broadly defined, most departments can tie their key priorities back to them. Departments choose their key priorities, but central agencies⁶ have some input, both to perform a quality assurance role and to gain a whole-of-government picture.

Previously, key priorities have formed a key part of chief executives' performance agreements and were driven down into the departments' businesses effectively. Key priorities were supposed to be SMART – Specific, Measurable, Achievable, Results-focused and Time-bound. Since chief executives were held accountable for delivering on these key priorities, they tended to be outputs rather than outcomes although the better ones included accompanying outcome goals and targets that indicated how progress was being made achieving the goal the key priority contributes to. Although key priorities are not currently part of the formal architecture of the system, departments are still required to link their activities back to the government's broad strategic priorities. Central agencies review departmental plans to ensure that departments are collectively doing the right things to achieve the government's high-level goals.

Initiatives are underway to improve the quality of departmental strategic planning and to make it more outcomes-focused. This should be reflected in improved *ex ante* reporting to Parliament. For example, five departments are piloting a new approach to strategic planning in the Capability, Accountability and Performance (CAP) pilot. The new approach encourages agencies to take a more consultative approach to departmental planning. In particular, it seeks to ensure that agencies take explicit account of:

- the outcomes the agency is aiming to achieve;

- the capability it will require both now and in the future to achieve those outcomes;
- the environment within which the agency operates;
- risks that the agency must take account of.

The planning process culminates in a Statement of Intent, which is a high-level summary of an agency's internal planning, with a multi-year focus. The Statement of Intent will be tabled in the House of Representatives and will be an important external accountability document.

2.3. *Translating strategy into action*

Both the budget and departmental planning documents translate strategy into action. The budget contains general output information but more specific information is contained in an Output Agreement⁷ which describes the outputs a department is producing within one or more years. The Output Agreement generally contains relatively little information on the outcomes an output contributes to. Departments are being encouraged to include more contextual information about how the outputs will contribute to outcomes.

This apparent focus on outputs at the departmental level has to be understood in the context of the sharp distinction made between the responsibilities of chief executives and ministers. The distinction is closely linked with the way accountability is thought of in the New Zealand system. In an accountability relationship, performance may attract rewards and sanctions so managers must have control over the performance dimensions for which they are held accountable.

Outcomes are generally beyond the control of individual managers⁸ so managers are not usually held accountable for them. Of course, decision-makers can be held accountable for the decisions they make and they can be held accountable for managing emerging risks and opportunities to the extent of their management authority to maximise the likelihood of the outcome being achieved. There are areas, of course, where experience shows it is possible to hold managers accountable for outcomes. For example, the Governor of the Reserve Bank has authority to set monetary policy and is held accountable for holding inflation within a specified target.

Although outcomes have some uses (but also some well-known limitations) in an accountability relationship, they have a far wider and more important role in departmental management. Information on outcomes is essential for direction setting, making intervention choices, improving co-ordination and identifying and building the capability needed to achieve the outcomes.

We have already noted the importance of outcomes in departmental strategic planning processes shaping a department's direction. In addition to their use in the formal machinery of the system, however, outcomes are critical to the effective

day-to-day operation of the state sector. Both in strategic planning and in day-to-day management, outcomes information focuses prioritisation choices about where to intervene, and trade-offs between different interventions. These choices and trade-offs need to be made in all levels of the system: Teachers need to decide which children require remedial reading programmes and ministers must decide whether they can best meet their education objectives by increasing early childhood education funding or tertiary education funding. Information on what outcomes are desired and whether government is achieving them must influence decisions and judgements throughout the state sector.

In summary, a key benefit of retaining a focus on outputs within formal management systems is that this ensures a better understanding of what is done by the public service. This is a prerequisite for assessing value for money. There are other parts to that value for money puzzle, however, including robust outcome information about whether the outputs had the desired impact. In other words, good outcome information is an addition, not a replacement, for good output information.

2.4. Improving outcome information

A key focus for improving outcome information is the policy advice process. After all, the key function of policy advice is to identify what the problem is and how to solve or mitigate it. This involves making judgements, based on evidence and sound reasoning, of how outputs contribute to desired outcomes. This can go hand-in-hand with a more sophisticated understanding of risk management as part of output specification. The biggest contribution to improved government performance in achieving outcomes is likely to come from improved policy advice, based on better information. Several initiatives are underway in this area, which are principally focused on improving the quality of information available on outcomes. This includes work on state indicators at a whole-of-government level and work within departments to define and measure outcomes better, and to ensure that outcomes information is used in decision-making.

2.4.1. State indicators

There are several different types of indicators that are relevant for outcomes-focused management, including (in increasing order of sophistication):

- *state indicators* which provide a snapshot of the world or aspects of it – *e.g.* percentage of children sitting and achieving School Certificate in five subjects;
- *effectiveness indicators* which attempt to measure the success of particular interventions – *e.g.* percentage of offenders in a target risk band re-offending within 12 months of release, following a particular intervention, compared with a matched-pair control group;

- *risk indicators* which suggest where interventions should be targeted – *e.g.* risk of imprisonment within five years.

States' information differs from effectiveness information as it does not rely on causal inference about the relationship between the intervention and the way the world is. By collecting comparable information across time and across location, policy-makers and decision-makers can see how the world is changing. States' information has a number of uses:

- it can guide prioritisation choices, by showing where the serious problems are;
- it can guide evaluations of effectiveness by providing an information base against which change can be assessed. Analysts can then use this knowledge about the world to make inductive judgements about the effectiveness of various interventions.

Some departments have already developed relatively comprehensive sets of state indicators. Fewer departments, however, have specific effectiveness measures that are intended to reflect the success of various interventions. This reflects the complexity of the public policy environment where many outcomes are reflected by a wide variety of interventions and environmental factors.

In particular, work is underway to develop whole-of-government or sector-wide sets of state indicators. For example, the Ministry of Social Policy has recently published *The Social Report 2001*, which contains around 35 indicators of the state of New Zealand's social health. Other projects are looking at reporting indicators of environmental health and sustainable development.

2.4.2. *Defining, measuring and using outcomes*

Although improving information about outcomes is an essential part of integrating outcomes into public management, it is only part of the picture. The achievement of outcomes requires decision-making processes to take account of information about outcomes. Treasury and the State Services Commission have recently set-up the Pathfinder Project to build management capability to develop outcome measurement frameworks and outcome management tools and approaches that can be used to improve outcomes across the state sector.

The Pathfinder Project, which seeks to demonstrate that it is possible to manage for outcomes in parts of the state sector, is a network of eight agencies, which, while working individually to define, measure and use outcomes in management, are actively sharing lessons learnt in the process. At the same time, Treasury and the State Services Commission are working to capture the lessons learned from the Pathfinder Project so that they can be shared more widely across the state sector.

2.4.3. Evaluation

In an outcomes context, by evaluation we mean impact evaluation. *Ex ante* analysis and assessment of proposed interventions is part of the core policy advice process, but the *ex ante* analysis needs to be backed up *ex post* by evaluation of the effectiveness of the intervention, when cost-effective. Impact evaluation may involve more than just setting and monitoring effectiveness indicators. It can also include some more in-depth analysis of causes and effects, and so seek further opportunities for greater value for money.

Impact evaluation is coming into sharper focus in the New Zealand public sector and we are beginning to evaluate the outcomes of policies/programmes/projects more systematically. The government has investigated requiring all policy proposals going to Cabinet to have evaluation criteria stated, but this was seen as impractical. In particular, there was a risk that agencies would develop a compliance attitude towards evaluation, rather than focusing on it when it adds value. Central agencies are focusing on improving evaluation criteria when discussing policy proposals with departments. A systems-wide approach to evaluation is actively being considered.

Budget initiative bids are required to include evaluation criteria. Ministers must outline if the proposal has been evaluated, and if so, what the results are. If not, ministers must outline how they will measure the success of the initiative. For example, if a minister proposes to purchase more special education services programmes to improve educational outcomes for a group of special needs children, that minister is required to outline in the bid how the success of those programmes will be evaluated. This information has only been required since the 2000 Budget so it is not yet clear how effective this will be at increasing the value that evaluation adds to the policy process.

2.5. Co-ordination and outcomes

Outcomes are the key focus of government activity, around which government co-ordination should be managed. To enable such co-ordination, there need to be shared high-level strategies and shared outcome targets. Shared outcome targets make explicit what the government is trying to achieve, and allow trade-offs to be made among different means of achieving the target.

Co-ordination is required beyond just the planning phase however. Managers also need to be aware of risks that can arise to hinder the achievement of the outcome. In a complex system, an intervention from one department can have a negative effect on the effectiveness of an intervention from another. There are many and varied interrelationships between interventions and outcomes in most social policy areas. For example, housing, education, welfare, environment, food safety and economic policies – the responsibilities of a range of ministers – will

impact on public health, which is within the purview of the Minister of Health. Thus being aware what the outcomes risks are, and how they can be managed, is critical both at the policy advice phase and the implementation phase. Work is underway at present to consider ways of improving co-ordination both at a policy and at an operational level.

3. Case studies

These examples illustrate some of the ways that outcome goals, measures and targets are used in New Zealand.

3.1. *Integrated Offender Management (Department of Corrections)*

3.1.1. *Context*

New Zealand's Department of Corrections has been developing a set of outcome measures on the effectiveness of rehabilitative programmes delivered to convicted offenders. The government spends around NZ\$32 million per annum on rehabilitative programmes for convicted offenders both in prison and in the community. The programmes are intended to reduce re-offending and so reduce the future cost of re-offending. This contributes to the government's goal of building safer communities.

The aim of the outcomes management project is to identify the effectiveness of specific rehabilitative programmes at reducing offending among a targeted group of offenders. Prison officers and probation officers will then be able to place offenders on programmes that are statistically most likely to be effective, given the offender's risk profile. Senior managers will be in a better position to advise the Minister of Corrections which programmes should be offered where and to whom, and, significantly, ministers will be in a better position to trade-off spending on offender rehabilitation programmes vs. other spending priorities based on robust cost-benefit data.

3.1.2. *The Outcomes Measurement Model*

The model is built around a cost-benefit equation that takes into account both the societal costs of crime and the cost-effectiveness of rehabilitative programmes. The basic cost-benefit equation is:

$$BCi = (CPHi * RQi)/RCPHi$$

Where:

- BC is the benefit – cost ratio for a specific intervention;
- CPH is the future cost per head of untreated offenders, which is defined as the average direct cost or total seriousness score of all offences committed over the next five years by individuals within the primary target group;

- RQ is the actual (or expected) Rehabilitation Quotient of a given intervention, as measured on the primary target group;
- RCPH is the rehabilitation cost per head given a rehabilitative intervention; and
- *i* indicates that the calculation's inputs (and thus output) are specific to a particular intervention and the particular target group it is delivered to.

It is relatively easy to determine cost of delivering a rehabilitation programme per head. The more sophisticated measures are the future cost per head (CPH) and the rehabilitation quotient (RQ).

- Future Cost per Head

This measure takes account both of the direct cost to the police/courts/corrections systems plus an estimate of the cost to society of an offender's re-offending over a five-year period. The future cost per head data was determined by following 28 000 criminal careers from 1993 to 1998 and counting the total length of sentences and numbers of offences in each offence class. Separate counts are completed for each risk band. Risk of imprisonment (RoI) and risk of reconviction (RoC) rates are determined for each of 10 target groups into which offenders are grouped. A profile is thus established for each of the target groups which is used to calculate the average future cost per head for individuals within the target group.

- Rehabilitation Quotient

The rehabilitation quotient (RQ) quantifies the reduction in the re-offending rate, as a percentage, due to rehabilitative interventions delivered to the target group. The RQ is measured by comparing an intervention group with a statistically valid, matched pair control group. Statistical demands mean that identifying RQs has been the most difficult data set to gain, given the relatively small size of New Zealand's offender population. However, the department plans to have robust RQ measures for its current set of programmes by February 2001. The mean RQ for a good adult programme is around 10-15%, while RQs for some youth programmes have approached 40%.

When RQs are available, a cost-benefit ratio can be determined that indicates how benefits compare to costs for a given intervention targeted at a given target group of offenders. Cost-benefit ratios of 1.8 to 30 have been obtained using RQ data from separate evaluations and from literature sources.

3.1.3. *Applying the model*

The cost-benefit model gives an accurate picture of the effectiveness of specific interventions targeted at specific groups. When the department has sufficient data to calculate RQs for its current (core) programmes, it will be in a position to

calculate the cost-benefit ratios for those core programmes. Thus it will be directly able to prioritise programmes and target programmes better at offenders.

The department will also calculate cost-benefit ratios from pilot programme results. Existing CPH and RCPH information can be combined with RQs based on overseas research or best estimates to determine the likely cost-benefit ratio. The estimated cost-benefit ratio can then be tested in the pilot. If predictions are borne out, the pilot can then become a core programme, competing for core funding on the basis of its cost-benefit score. Pilot information can continually be fed into the core programme prioritisation system to ensure that ministers get best value for the money they spend.

The cost-benefit ratio information has also been used to determine how much expenditure is justified on rehabilitation programmes. Ministers may determine a minimum cost-benefit threshold and fund everything within that threshold. Since there will always be constraints on government expenditure, funding limits will see continuous improvement as the best pilots displace programmes in the core.

Data will continue to feed into the system through time, so that continuous evaluation can occur. The department will continue to operate matched pair control groups to recalculate RQs.

3.1.4. *Governance and decision-making*

The outcomes management project will have a significant effect on the way that the department manages its rehabilitation programmes. Initially it will provide information to aid decision-making; managers and case workers will continue to be held accountable for delivering their outputs, rather than outcomes. Continuation of funding will, however, be increasingly dependent on delivering outcomes.

3.2. *Outcomes-based funding for employment programmes (Department of Work and Income)*

This example, which is still at the pilot stage, shows the potential use of outcome measures and targets in managing contracts with non-departmental providers. It is an explicit example of accountability for outcomes in the New Zealand public service, which illustrates the value of thinking carefully about output specification.

The Department of Work and Income is responsible both for assisting job-seekers find work and for assessing and paying benefits. A significant part of its business is contracting employment programmes and services from third-parties to minimise unemployment.

In the past, these programmes have been funded on an activities or outputs-basis: The provider is paid based only on the number of programmes they deliver. Because the contracts for services with employment programme providers needed to be specified up front, case managers were constrained over the choice of programmes they could suggest customers enrolled on.

The department currently contracts with individual providers for training and/or other programmes (*e.g.* Work Confidence, ESOL and Industry-based training programmes). It is piloting contracts that combine some sort of payment for activity with payment for achieving an outcome or output. If successful, such output contracts, with outcome performance measures, could show that it is possible to incorporate rich outcome measures that matter for accountability into output contracts. There are also, to date, some examples of contracts that are solely outcomes-based, although there is obviously a risk here that a provider can be paid for doing nothing, if the contract is not well specified. The long-term success and impact of these approaches is still to be determined.

3.2.1. *Progress to date*

In line with international trends, the department is about to pilot an outcomes-based approach in New Zealand that strengthens the focus on achieving specified employment outcomes, and provides support to this process through increased programme and funding flexibility. The pilots will take place in seven regions, and around 12 providers and 500 job-seekers will be involved. The pilots will test issues around:

- appropriate target groups for the initiative;
- specification of outcomes that should be achieved;
- costs to the department of specific groups for a set period as a basis for setting a “price”; and
- funding formulae and accountability frameworks that are appropriate to the local delivery environment.

If the pilots are successful, they could inform the development of an outcomes-based approach in relation to the department’s mainstream delivery of employment programmes. There may also be potential in the longer-term for extending this approach to other core services.

In some regions, the department has been contracting for services with pay for performance-based on achieving the desired outcome. Third-party providers are paid an up-front fee for service, but the bulk of the payment comes later when the customer finds and remains in a job. For example, the provider may get a fee upfront, an incentive or performance payments when the customer gets a job, a further payment if the customer stays in the job for 13 weeks, and a further payment when the customer has stayed in the job for 26 weeks. Research suggests

that after six months or so, the relationship between the employee and employer assumes greater importance than the relationship between case manager/trainer and customer.

There have also been some contracts where providers receive no upfront fee, but are paid only performance payments as the customer successfully finds and remains in a job.

3.2.2. *Future directions*

In line with the aim of devolving responsibility for choosing programmes to the most appropriate level, the department is looking at developing the use of outcomes-based funding contracts further. One option is to contract out case management services to local providers. Contracts could focus on the outcomes to be achieved, without limiting the programmes that the funding could be used for. The department would specify an outcome or a hierarchy of outcomes such as:

- the client is placed in stable unsubsidised employment;
- the client has been placed in stable employment for three months;
- the client is in unsubsidised employment;
- the client is in subsidised employment.

The provider would be paid as the client achieved each of those outcomes and so funding would not follow programmes, but individual clients. Contestability should see a culture of continuous improvement develop so that the funding goes to the most effective providers and programmes.

An outcomes-based funding approach will only be effective, however, when:

- there is a clear statement of the desired outcome;
- providers have the capability to manage service delivery on an outcome-based funding model;
- outcome payment is targeted to client risk and need, so that providers do not have incentives to concentrate on short-term temporary unemployed who could find jobs by themselves;
- there are incentives to ensure that the provider has an interest in the person remaining in the job for a certain period; and
- there is sufficient demand in the job market.

3.2.3. *Evaluation*

The goal of funding employment assistance on an outcomes basis is to reduce the persistence and incidence of unemployment. Short-term unemployed pose far fewer costs to society than a core of long-term unemployed, who are likely to be the hardest to get into jobs. As a result, work is underway to develop better tools to assess risk.

An evaluation of the success of the outcomes funding model will need to focus on success at reducing the rate of persistent unemployment among the pilot groups.

3.2.4. *Comments*

It is possible to contract for these services and measure aspects of performance on an outcomes basis. The accountability issues are more complex in an outcomes-based approach and require robust measures and monitoring of performance against outcomes. There are risks of providers under-performing or undertaking undesirable activities that are not picked up by an outcomes-based performance framework.

In order to fund on an outcomes basis, however, robust prices are needed to ensure both that the government is getting value for money and that providers (many of which are not-for-profit) remain viable. In running the pilots, the department will need to determine the cost of specific target groups for specific periods as a basis for setting the “price”. The report collects historical data on length of benefit receipt of its clients, and this can be accessed for particular groups.

3.3. Road Safety Strategy (Land Transport Safety Authority, lead agency)

3.3.1. *Context*

The National Road Safety Committee has recently released “Road Safety Strategy 2010”. The strategy outlines options for reducing the social cost of crashes on New Zealand’s roads and seeks public feedback on which option to choose.

The previous road safety plan – *National Road Safety 1995* – aimed to achieve a level of road safety equivalent to the safest countries in the world. The updated plan has a more modest target. The goal is to achieve current (*i.e.* 2000) world’s best practice by 2010. At present, New Zealand has around twice as many deaths per 100 000 persons and deaths per 10 000 vehicles as the safest countries in the world.

There are three interesting aspects of this work from the perspective of outcomes-focused management. One is the manner in which the actual outcomes targets will be set. The second is how these targets are translated into interventions at minimum cost. The third is how people are held accountable for achieving the targets.

3.3.2. *Setting the targets*

As noted above, the overall outcome goal is to achieve current world’s best practice by 2010. This high-level goal, measured in terms of social cost is built upon a hierarchy of targets. Social cost is underpinned by final outcome targets such as the road death toll (target 2010 = fewer than 295 deaths). Beneath this are

intermediate outcome targets – targets like proportion of drunk drivers, the average speeds on various types of roads. Underneath these are output targets such as the number of police traffic patrols, the number of anti-drink driving or anti-speeding advertisements shown or the number of passing lanes. Some of the targets can also be broken down by region and by road user groups – cyclists, pedestrians and older drivers, for example.

The targets are set using a mathematical model that predicts road safety outcomes. The model is built upon a set of assumptions derived from a wealth of historical crash and roading information. This snapshot of New Zealand road safety is the base from which a set of mathematical functions predict how various interventions and other factors should affect road safety outcomes.

For each of around 12 000 categories of casualty type, the current outcome is taken from the historical datasets. The current outcome is then adjusted to a 2010 baseline level. This adjusted baseline takes account of factors outside road safety agencies' control such as increased traffic volumes. The 2010 baseline outcome provides a benchmark against which predicted improvements can be measured.

Interventions are now added to the mix. For each of the 12 000 casualty types, the predicted effectiveness of various interventions is calculated. The calculation is based both on the rate of effectiveness for an intervention and the number of times the intervention is used. Thus we are left with predictions of how using specified amounts of specified interventions would affect the road safety outcomes for each category of casualty type. These results can then be aggregated to produce a full picture of how a mix of interventions can be expected to affect road safety outcomes.

The mix of interventions can also be costed to give a robust cost-benefit ratio for any given mix of interventions. Officials are still working to determine appropriate costings for different interventions.

Thus policy-makers and decision-makers have relatively good *ex ante* information, based on historical data and transparent assumptions, on which to base decisions on future interventions. The information can also be used to set targets. For example, the predictive model may suggest that an extremely costly set of interventions is likely to produce the lowest absolute reduction in the social cost of accidents. An intervention mix such as lowering the open speed limit to 20km/h and policing it strictly would probably lower the social cost of accidents near to zero. However, given the total costs this poses on society, this is unlikely to be a viable option. Hence a target based on that intervention set is unlikely to be a credible one.

3.3.3. *Choosing interventions*

When the public consultation process is completed, ministers will choose the targets. They can then use the cost/benefit information to determine which interventions are most likely to achieve the desired road safety outcomes at the least cost. Throughout the life of the strategy, the outcomes predicted by the model can be tested against the outcomes actually achieved and the intervention mix can be altered accordingly. Thus a feedback and evaluation loop is effectively in place. New data will also help modellers refine the functions that predict how interventions affect outcomes.

3.3.4. *Accountability*

A number of agencies contribute to these outcomes, especially the road safety agencies and the Police. The aim is for the National Road Safety Committee to take collective responsibility for the overall achievement of the social cost and final outcomes targets. Outcomes performance monitoring will continue on a quarterly basis with annual reviews, while formal reviews will be held every three years.

It is likely that the Land Transport Safety Authority, as the lead agency, will continue to be held accountable for these final outcomes, as in its current performance agreement. However, individual agency accountabilities will be more clearly specified within the performance management framework set out by the final strategy.

The envisaged accountability arrangements will “bite” harder than the current ones because they are based on a more rigorous and transparent analytical base. Certain difficulties associated with linking specific outputs to final outcomes will not disappear, but performance expectations will be more clearly defined and tracked across the full suite of road environment, vehicle and road user interventions. Regular review and *ex post* evaluations will sustain the outcomes-focus. Specific output targets will highlight key agency implementation accountabilities.

3.4. *New Zealand Biodiversity Strategy (Department of Conservation, lead agency)*

3.4.1. *Context*

The New Zealand Biodiversity Strategy (NZBS) was released in March 2000 and aims to halt the decline of New Zealand’s indigenous biodiversity. The strategy has a 20-year timeframe and establishes a framework of goals, objectives and actions that are required to halt the decline. Priority actions have been identified and are currently being implemented that will lead to the greatest gains in biodiversity in the next five years. The strategy covers terrestrial, freshwater and marine biodiversity. A key feature of the strategy is that it does not focus solely on

biodiversity on the Crown-owned conservation estate, but seeks to halt the decline in biodiversity nation-wide, including on private property. Partnerships are needed to ensure that the strategy is successful, allowing the participation of all New Zealanders, not just central government. Other key participants are local government, the private sector, iwi (Maori tribal groupings) and local communities.

The strategy includes a wide range of initiatives. Some are designed to halt the decline in biodiversity, while others, such as information gathering programmes, are to ensure that outcomes can be measured. The strategy is still at an early stage, so reporting on outcomes in relation to the strategic goals in the strategy is some years off. The major report after the first year (in October 2001) focused on auditing the implementation of the priority actions in the strategy. The report after the second year will include some preliminary intermediate outcomes related directly to those actions (*e.g.* number of possums killed). There will not be reporting against outcomes relating to the strategic goals in the strategy (*e.g.* reduction in rate of deforestation, change in number of key species) until the end of the third year.

- Outcomes measures in the strategy

Outcomes measures and targets are used in the strategy to determine priorities for funding and to determine the effectiveness of interventions. There is a wide variety of projects, some involving information gathering for monitoring and evaluation purposes. Outcome measures have been developed for some programmes and are still being developed for others. Nevertheless, it is useful to give some examples.

- Offshore Island Eradications

New Zealand has a number of offshore islands that are sanctuaries for protected species. A project is underway to eradicate pests or to manage them at sustainable levels so that they do not pose a threat to each of the islands' unique environment. This involves both eradicating pests, and ensuring that they do not come back. The key intermediate outcome measure for these projects is the presence or absence of target pests on the islands two years after the operation is completed. This is measured by sophisticated trapping and monitoring programmes. Longer term, the desired outcome is to halt the decline of biodiversity by ensuring the protection and recovery of at-risk species.

- Increasing Protected Areas on Private Land

The goal of this programme is to purchase, or support the effective management of, private lands with high biodiversity values. The programme aims to apply increased funding to existing mechanisms to ensure that a wider range of natural

habitats and ecosystems are protected. Results will be measured using ecological criteria and other appropriate measures. Longer-term measures for assessing the contribution of the programme to the goals in the strategy are still being developed.

- Terrestrial and Freshwater Biodiversity Information System

The aim of this project is to develop awareness of and access to existing information, as well as gathering and providing new information. The intermediate outcome is to have developed systems for gathering and accessing information, to improve knowledge about biodiversity and to increase public awareness about the state of New Zealand's biodiversity.

Initial targets are focused on the development of appropriate systems to collect, manage and disseminate the information. Longer-term targets are still being developed.

3.4.2. *Using the measures*

The primary purposes of collecting the outcomes information is to increase our understanding of New Zealand's biodiversity and to halt the decline of indigenous biodiversity. The information will be used to assess the effectiveness of various projects and to determine priorities. It can inform both what the desired outcomes should be and how they should change across time, and which interventions should be used to achieve those outcomes. Measuring the extent to which the desired outcomes have been achieved is also a useful information base for evaluating the overall success of the strategy from a process perspective.

The 20-year strategy has a funding plan for the first five years. Reprioritisation can begin when outcome results start to emerge. A major review after five years will assess success and direct new funding to the highest priorities.

3.4.3. *Managing the strategy*

As is usual practice in the New Zealand public service, managers are held accountable for managing the particular programmes. This can include assessing their success at managing risks that arise, including outcome risks.

A ministerial group is responsible for developing and implementing the New Zealand Biodiversity Strategy. This group is supported by a central government co-ordinating group, comprising the chief executives of the relevant agencies. Accountability for the overall management of the strategy is being bedded down through each agency's purchase and chief executive performance agreements.

3.5. Maori Education Strategy (Ministry of Education)

3.5.1. Context

One of the government's key priorities is to reduce inequalities in health, education, employment and housing. Maori – New Zealand's indigenous people – and Pacific peoples, as a group, fare worse than the population as a whole in these areas. A co-ordinated effort is underway to reduce these disparities and to ensure that all New Zealanders have the opportunity to participate fully in society.

Three areas, in particular, are being targeted: Education, employment and health. Outcome measures and targets have been developed for all of them. The nature of the social inequalities means however that a long-term timeframe is required to see if the desired outcomes are achieved. Significant educational outcomes especially can only be assessed after 10 or even 15 years of the intervention.

This paper focuses on the definition, measurement and use of education outcomes within the Maori education strategy.

3.5.2. Reducing education inequalities

It is well recognised that educational achievement is a key determinant of achievement later in life. As a result, much of the early focus has been on improving Maori educational performance.

The outcome indicators developed do not cover the whole ambit of the education system. Instead, a set of key indicators has been chosen, which research suggests are the best indicators of ongoing improvement and success in Maori educational achievement and reducing inequalities between Maori and non-Maori.

The desired outcomes are broken down into participation and achievement goals for early childhood, school and tertiary education. Some of the outcomes, and indicators for them, are outlined below:

- Early Childhood Education

Goal	Measure	Target
Increase Maori participation in early childhood education.	Percentage of Maori aged 0-4 enrolled.	65% by 2006.

This target was set by comparison with the rate of participation among non-Maori.

• School Education

Goal	Measure	Target
Increase rate of Maori participation in school education.	Rate of Maori suspensions per 1 000 students.	Reduce rate to five per 1 000 by 2008 and to three per 1 000 by 2016.
Increase the achievement rate of Maori students in senior secondary education.	Rate of achievement of A, B and C grades in School Certificate and University Bursary.	Increase by 12% by 2010 and to parity by 2020.

These goals are derived from the non-Maori participation and achievement rates.

• Tertiary Education

Goal	Measure	Target
Increase participation of Maori students in tertiary education.	Percentage of students who are Maori.	13.8% by 2002, up to 16.7% by 2006.
Increase achievement of Maori students in tertiary education.	Percentage of graduates who are Maori.	15.1% by 2002, up to 18.2% by 2006.

3.5.3. *Using the outcome measures*

A variety of products have been developed in addition to the goals, measures and targets. In particular there are regular monitoring reports, which assess progress across the board, and evaluation reports, which assess the effectiveness of specific programmes.

Each goal is supported by a strategy to achieve it. For example, alongside the goal to increase Maori participation in early childhood education are a number of strategies including:

- examining ways of removing barriers;
- promoting the benefits of early childhood education; and
- expanding the availability of early childhood services.

Progress against the goal will be informative, but will not indicate which interventions are effective and which are not. Across time, it will become apparent where progress is being made and where continued efforts should be focused, but the outcome indicators will not show which interventions offer value for money. Hence, evaluation of programmes is critical at the micro-level of resource allocation as well as the policy development and planning stages of the cycle. The goal is to ensure that budget decisions and intervention decisions are based on outcome information.

3.5.4. *Managing and reporting outcomes*

The outcome goals and targets in the Maori education strategy have considerable political buy-in. Although the eventual goals are often long-term ones, achievable two- to three-year intermediate goals have been included. This enables ministers to focus on delivering tangible results within the electoral cycle.

At a departmental level, departments are required to report in their annual reports on their effectiveness in reducing inequalities. The annual report needs to include information on amount of expenditure spent reducing inequalities, and information on the effectiveness of that expenditure. In addition, departmental material is aggregated into a whole-of-government report, which is audited and tabled in the house.

4. **Conclusions**

New Zealand's public management reforms were designed to move the focus from what resources were being used, to what was being produced and what outcomes were achieved as a result. Considerable gains have been made, particularly in understanding what is being produced and how much it costs. Further work is underway to develop outcome management systems. The Pathfinder Project, in particular, may produce some tangible gains in this area.

Considerable effort is being applied to move outcomes into the core of the practice of public management in New Zealand. The five case studies illustrate that this process is well underway, and that it is possible to make progress despite the often-mentioned difficulties in managing for outcomes. One of the lessons that can be learnt from the New Zealand experience is that creating an environment that enables outcomes-focused management is unlikely to be enough. It is difficult to define, measure and manage for outcomes, and in some areas of government activity it is probably too difficult. Central agencies must balance the need to be responsive to the constraints that specific agencies face, with the need to provide impetus and leadership from the centre. This makes it difficult to drive outcomes-based management from the top-down. If agencies are to use outcomes-based systems, they need to have a sense of ownership and so need to develop the tools and systems themselves to fit their businesses.

It is important to focus on outcomes in both the formal and informal parts of the public management system. While outcomes may have some value in an accountability relationship, greater gains are likely to be realised from outcomes in planning, budgeting and decision-making processes. The key is good quality information: Information on what works and what does not is essential for effective public management. Similarly, outcome objectives need to be clearly stated and meaningful for both ministers and managers.

A third lesson that can be drawn from the New Zealand experience is that moving the focus to outcomes forces government to rethink its attitude to risk. The Corrections example shows that agencies need to be open to the possibility of programme failure if they are to improve the effectiveness of government expenditure. Corrections deliberately allocates a portion of its rehabilitation programmes budget to test new interventions to assess their effectiveness. Thus, the department can continually improve the value of its expenditure by taking risks and being open to failure.

New Zealand's public service has a large number of specialist agencies. As a result, co-ordination is critical for effective policy advice and service delivery. Outcomes can play a critical role focusing agencies on the same issues, and since outcomes cross organisational boundaries, effective outcome management also requires agencies to co-ordinate. The New Zealand Biodiversity Strategy is a good example of outcome co-ordination in action, as is the Road Safety Strategy. Joint initiatives like these are needed to address the critical public policy issues facing New Zealand.

Notes

1. This paper was originally prepared as a background paper for an OECD experts' meeting on outcomes-focused management.
2. The key parameters are quality, quantity, timeliness, location and cost.
3. Scott, Bushnell and Sallee, *Reform of the Core Public Sector: New Zealand Experience*, p. 157.
4. Fiscal Responsibility Act (1994) Section 6, Part 3(a).
5. Public Finance Act (1989) Section 9, Part 2(a).
6. Central Agencies are the Department of the Prime Minister and the Cabinet, the State Services Commission, and the Treasury.
7. Previously called a "Purchase Agreement".
8. Commonly cited reasons for this include the difficulty of determining causality accurately, the time-lags between intervention and outcome, and information difficulties.

Annex I Terminology

Outcomes – The Public Finance Act (1989) states:

“Outcomes” means the impacts on, or the consequences for, the community of the outputs or activities of the government.

Judgements about outcomes depend upon judgements about causal relationships between interventions and the final results.

Outputs – The Public Finance Act (1989) states:

“Outputs” means the goods or services that are produced by a department, Crown entity, Office of Parliament, or other person or body.

For an output to be meaningful as an accountability tool it must be described in ways that enable the producer of the output to be held to account for its delivery. To this end, output performance measures have traditionally been thought of in terms of quality, quantity, timeliness and cost. More sophisticated measures of output quality may well make reference to the outcomes the output contributes to.

Government can intervene via other activities such as regulation, funding, making grants or investing.

Annex II

Key Government Goals to Guide Public Sector Policy and Performance

Strengthen national identity and uphold the principles of the Treaty of Waitangi

Celebrate our identity in the world as people who support and defend freedom and fairness, who enjoy arts, music, movement and sport and who value our cultural heritage; and resolve at all times to endeavour to uphold the principles of the Treaty of Waitangi.

Grow an inclusive, innovative economy for the benefit of all

Develop an economy that adapts to change, provides opportunities and increases employment, and while closing the gaps, increases incomes for all New Zealanders.

Restore trust in government and provide strong social services

Restore trust in government by working in partnerships with communities, providing strong social services for all, building safe communities and promoting community development, keeping faith with the electorate, working constructively in Parliament and promoting a strong and effective public service.

Improve New Zealanders' skills

Foster education and training to enhance and improve the nation's skills so that all New Zealanders have the best possible future in a changing world.

Reduce inequalities in health, education, employment and housing

Reduce the inequalities that currently divide our society and offer a good future for all by better co-ordination of strategies across sectors and by supporting and strengthening the capacity of Maori and Pacific Island communities.

Protect and enhance the environment

Treasure and nurture our environment with protection for eco-systems so that New Zealand maintains a clean, green environment and rebuilds our reputation as a world leader in environmental issues.