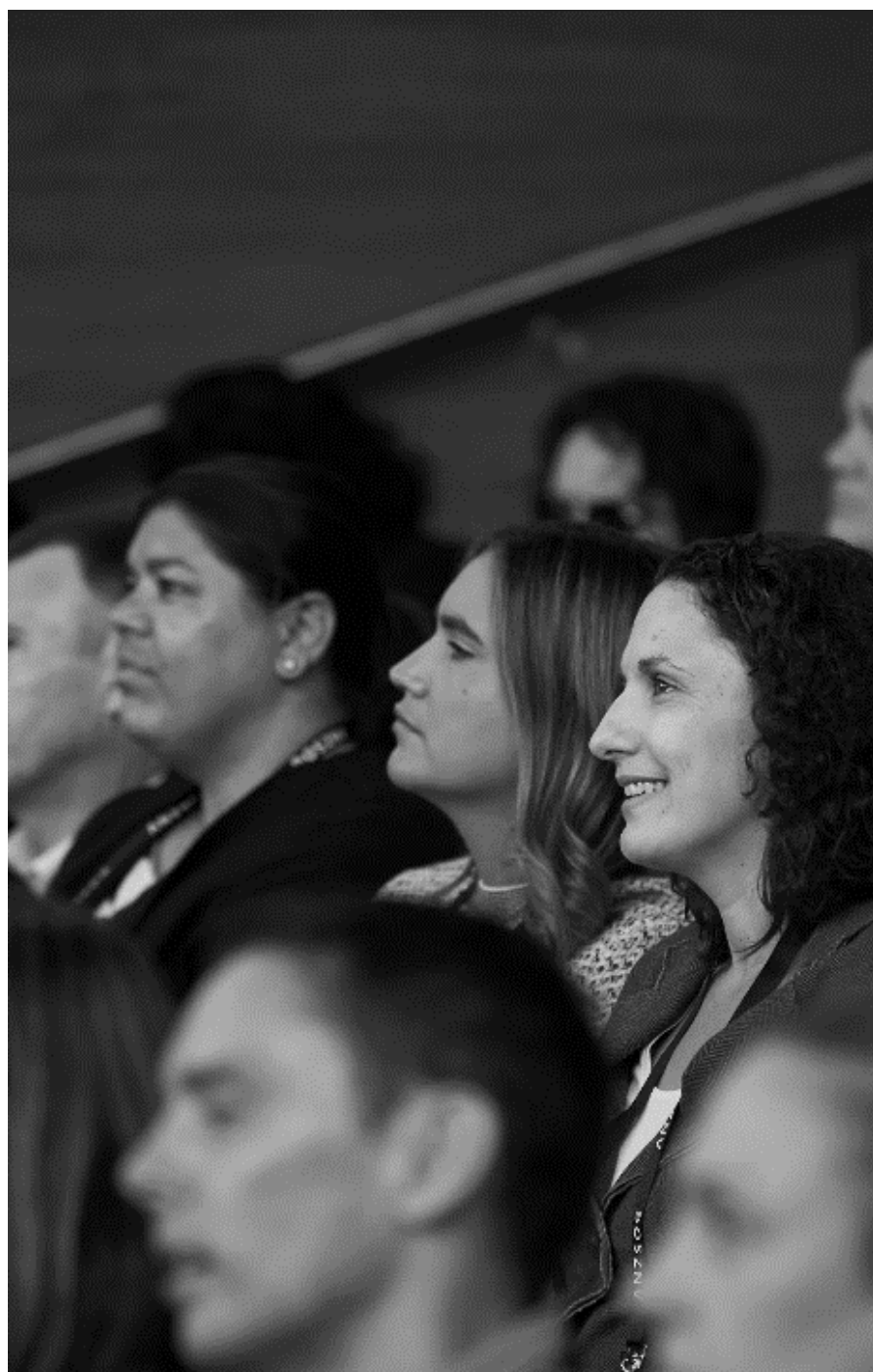




# Developing Agency Capability

# DEVELOPING AGENCY CAPABILITY



## A NEW AGENCY CAPABILITY REVIEW FRAMEWORK

5 May 2021

Donald Speagle, Shaun Goldfinch  
and Rory Dufficy

## ACKNOWLEDGEMENTS

The authors wish to thank Helen Moody, Stephen Sedgwick, and Peter Thomas for their comments on earlier versions of this paper. Their contributions resulted in significant improvements. Of course, all judgments and any errors remain the responsibility of the authors.

## CONTENTS

<b>ACKNOWLEDGEMENTS .....</b>	<b>2</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>5</b>
<b>1. AGENCY CAPABILITY OR PERFORMANCE IMPROVEMENT REVIEWS .....</b>	<b>7</b>
1.1 A Brief History of Agency Capability Reviews .....	7
1.2 What is an Agency Capability Review? .....	8
1.3 A new framework for agency capability reviews....	9
<b>2. LESSONS FROM PREVIOUS CAPABILITY REVIEW PROGRAMS .....</b>	<b>11</b>
2.1 UK Capability Reviews .....	11
2.2 The Australian Commonwealth Capability Reviews (2011-2016).....	14
2.3 New Zealand's Performance Improvement Framework (2009–current) .....	16
2.4 The Canadian Management Accountability Framework (MAF).....	19
2.5 Conclusion and Key Lessons .....	20
<b>3. CRITICAL DESIGN CHOICES FOR AN AGENCY CAPABILITY REVIEW FRAMEWORK.....</b>	<b>22</b>
3.1 Summary .....	22
3.2 The objective of a capability review program .....	22
3.3 Should agency performance, as well as agency capability, be explicitly assessed? .....	23
3.4 Self-Assessment and External Assessment.....	26
3.5 A Rating Scale .....	27
3.6 Publication .....	30
3.7 Resourcing.....	31
<b>4. AN ORGANISATIONAL CAPABILITY MODEL FOR AUSTRALIAN GOVERNMENTS .....</b>	<b>33</b>
4.2 The structure of the model.....	34
4.3 Domains of organisational capability .....	36
<b>5. PROCESS FOR CONDUCTING AND ACTING ON THE REVIEWS .....</b>	<b>41</b>
5.1 Summary .....	41
5.2 General principles.....	43
5.3 Planning a program of reviews .....	44
5.4 Choosing the review panel .....	45
5.5 Agency personnel involved in the review .....	46
5.6 Commission personnel involved in the review ....	47
5.7 Formal initiation of the review .....	47
5.8 Induction of review panel.....	47
5.9 Preparation for the review ('fact-finding').....	48
5.10 Agency self-assessment.....	49
5.11 Generating key lines of enquiry .....	50
5.12 Fieldwork .....	51
5.13 Reporting (including moderation of assessment) .....	52
5.14 Agency action plan .....	54

5.15 Publication of report and action plan .....	55
5.16 Follow-through .....	56
<b>6. CONCLUSION .....</b>	<b>58</b>
<b>APPENDIX ONE: A MODEL OF ORGANISATIONAL CAPABILITY: DOMAINS, ELEMENTS AND BETTER PRACTICE STATEMENTS .....</b>	<b>59</b>
<b>APPENDIX TWO: CAPABILITY REVIEW ASSESSMENT SCALE .....</b>	<b>67</b>
<b>REFERENCES .....</b>	<b>68</b>

---

## EXECUTIVE SUMMARY

- This Occasional Paper proposes an agency capability review framework for Australian governments.
- Agency capability refers to internal business processes, culture, and leadership practiced at system, whole-of-sector, and/or whole-of-agency level. It is distinguished from individual employee capability, such as skills and competencies.
- Agency capability reviews are focussed on improving outcomes for citizens. They are 'forward-focused'; looking at the ability of agencies to respond to challenges in the future, and giving indications where improvements should be made.
- The idea of capability reviews originated in the United Kingdom (UK) in 2005, although Canada's 2003 Management Accountability Framework has some similarities.
- The Commonwealth endorsed the concept in its 2010 report on Reform of Australian Government Administration, and the Commonwealth ran a program of reviews from 2011 to 2016 using the UK model with small adaptations. However, the impetus faded after the change of government in 2013.
- New Zealand commenced a similar program of reviews in 2009 under the moniker of the 'Performance Improvement Framework' (PIF), which continues in operation. The New Zealand PIF, which has evolved over time, departs more significantly from the original UK model.
- In 2017 the Western Australia Service Priority Review proposed a regular cycle of agency capability reviews to drive ongoing improvement across the public sector. The Western Australian Government approved that recommendation. ANZSOG has provided substantial advice to the Western Australian Public Sector Commission to assist it in preparing to implement a program of reviews.
- The December 2019, the Independent Review of the Australian Public Service, chaired by David Thodey (the Thodey Review), called for a program of capability reviews for departments and some other agencies by mid-2021.
- Drawing principally on the UK, New Zealand, and Australian Commonwealth examples, we propose the following model, to be managed by the relevant public service or public sector commission (or equivalent) ('the Commission'):
  - Use of three-person independent review panels selected by the Public Service or Sector Commissioner, after due consultation with relevant ministers and agency heads;
  - Administrative support provided to the review panel by the Commission, with a degree of stability of membership to develop whole-of-government expertise.
  - Initial agency self-assessment, complemented by 'fact-finding' by the panel drawing on interviews, site visits, surveys and other documents. This would establish five to six key 'lines of inquiry' for further investigation.

- 
- Subsequent fieldwork – using interviews of ministers, the agency CEO, other agency leaders, and other staff, with interviews and focus groups also used to ascertain the

views of partners and citizens – to establish key avenues and recommendations for improvement.

- Agencies assessed over five domains: Leadership, Culture, and Direction; Delivery for Citizens; Relationships; People Development; Resource and Risk Management.
- A rating scale should be used to allow for useful comparison across agencies. We recommend a four-point scale showing: Developing Well; Developing; Needs Development; Needs Considerable Development.
- The development of a four-year 'excellence horizon' by the review panel, articulating priorities for medium-term performance improvement, is recommended to maintain this future focus.
- Peer review/moderation of results and ratings is recommended to assure comparability across agencies.
- Agencies should prepare an action plan to show their responses to the findings.
- Reviews and action plans should be published after notification to ministers (through a Cabinet Committee process) to maintain credibility and provide clear directions for improvement, and provide benchmarks for tracking improvements over time.
- Follow-up reviews should be carried out within 18-to-24 months to track progress, and allow for evolution of the review process.

# 1. AGENCY CAPABILITY OR PERFORMANCE IMPROVEMENT REVIEWS

## 1.1 A Brief History of Agency Capability Reviews

Agency capability reviews, sometimes referred to as 'performance improvement reviews', have been used by governments in the UK, New Zealand and the Commonwealth over the last 15 years, as mechanisms designed to improve agency performance, and ultimately outcomes for citizens. Reviews have been used across a wide range of areas of the public sector. In 2018 the Western Australian Government supported a recommendation to explore options for a capability review program.

The original and most influential framework for capability reviews was developed in the UK in 2005.<sup>1</sup> Sir Gus O'Donnell, the then UK Cabinet Secretary and Head of the Home Office, was instrumental in its development and implementation. It emerged from a desire to enable the Cabinet Secretary to hold permanent secretaries to account for improving the capability of departments in the same way that the Prime Minister's Delivery Unit equipped the Prime Minister to hold secretaries of state (senior ministers) to account for the delivery of Public Service Agreements. Another important influence was the Comprehensive Performance Assessment model used by the then UK Audit Commission to assess the overall performance of local councils between 2002 and 2009.<sup>2</sup> However, the UK model did not survive the election of a new government in 2010, and the resignation of O'Donnell a year later.

Following a visit to the UK by the then New Zealand State Services Commissioner, New Zealand introduced a modified form of capability reviews in 2009, called the Performance Improvement Framework (PIF). New Zealand shared with the UK a desire to increase the focus of departmental heads on organisational stewardship. Moreover, the Global Financial Crisis had placed a premium on the need for agencies to lift their performance to deliver better outcomes for the public in an era of fiscal constraint. The PIF has been updated on several occasions and New Zealand continues to undertake reviews using the PIF.

In 2010 the Commonwealth's Advisory Group on Reform of Australian Government Administration proposed the introduction of capability reviews, based on the UK model.<sup>3</sup> It was concerned about a lack of support for secretaries to improve the capability of their organisations and limited accountability for how well agencies perform internally and cooperate with others. In this respect it compared Australia unfavourably with the UK, New Zealand and Canada. The then Government accepted the recommendation and the Commonwealth's original program of reviews commenced in 2011. As in the UK, the original Commonwealth program did not survive a change of Government in 2013 (even though a number of reports were released in the following three years).

The 2019 report of the Independent Review of the Australian Public Service, chaired by David Thodey (the Thodey Review), recommended the revival of such reviews in the Commonwealth. In its first substantive recommendation, the Thodey Review proposed that the Commonwealth Government should 'Undertake regular capability reviews to build organisational capacity and accountability' by mid-2021 and outlined a plan for how a new program might be

---

<sup>1</sup> It can be argued that the Management Accountability Framework (MAF), developed by the Canadian Government had some similarities, but as explained below, the authors consider the MAF to be qualitatively different from the capability review models of the UK, New Zealand and the Commonwealth.

<sup>2</sup> Interview with Peter Thomas, January 2020.

<sup>3</sup> Advisory Group on Reform of Australian Government Administration (2010). 'Ahead of the Game: Blueprint for the Reform of Australian Government Administration'. Canberra: Commonwealth of Australia, 63-4.



conducted.<sup>4</sup> The Commonwealth Government accepted this recommendation. According to the Thodey Review, the abandonment of the original Commonwealth capability review program meant that ‘the [Australian Public Service] lost an opportunity to incentivise agency heads to build agency capability over time.’<sup>5</sup>

Some Australian states also demonstrated interest in the idea of agency capability reviews. Victoria’s Public Sector Commission undertook a capability review of its Department of Health and Human Services in 2015, using a model of organisational capability that was a hybrid of the Commonwealth and New Zealand models, and a process very similar to that originally used in the Commonwealth.<sup>6</sup> However, that review appears to have been a one-off initiative.

More significantly, the October 2017 Western Australian Service Priority Review (SPR) recommended the introduction of ‘a regular cycle of agency capability reviews to drive ongoing improvement across the [public] sector’.<sup>7</sup> The SPR was established to investigate ways to ‘drive lasting reform of service delivery, accountability and efficiency’<sup>8</sup> in the Western Australian public sector. Its report observed that:

Agency capability reviews, sometimes referred to as ‘performance improvement reviews’, are proving to be powerful agents for change that can drive a culture of continuous improvement in government sectors.<sup>9</sup>

The chair of the SPR was the former New Zealand State Services Commissioner Iain Rennie, who had been instrumental in developing the New Zealand PIF. Indeed, the discussion of capability reviews in the SPR reveals the influence of the New Zealand framework. The Western Australian Government supported the SPR’s recommendation to establish a program of agency capability reviews<sup>10</sup> and, through the Western Australian Public Sector Commission (PSC), has undertaken considerable work to develop a program of such reviews. ANZSOG has provided substantial advice to the PSC to assist it in preparing to implement a program of reviews.

## 1.2 What is an Agency Capability Review?

An agency capability review seeks to determine whether an entity has the capability to meet current and future challenges, in order to promote a culture of continuous improvement of an agency’s performance.<sup>11</sup> It looks at how this capability can be improved and developed, to improve outcomes for the public.

Agency capability is distinguished from individual employee or leadership capability. It examines the functioning of systems, rather than simply individual performance, individual skills or competencies. It investigates an organisation’s capacity ‘to deploy resources, usually in combination, using organisational processes, to effect a desired end’.<sup>12</sup> Importantly, an agency capability review is not primarily an audit of current or past performance, or another name for a performance evaluation.

How do agency capability reviews operate? While there is variation across jurisdictions, reviews in practice can be seen to have the following common features:

<sup>4</sup> Recommendation 2a: Commonwealth of Australia (2019). ‘Our Public Service, Our Future. Independent Review of the Australian Public Service’. Canberra: Commonwealth of Australia, 73.

<sup>5</sup> Commonwealth of Australia, ‘Our Public Service’, 70.

<sup>6</sup> See Victorian Public Sector Commission (2015). ‘Capability Review of the Department of Health and Human Services’. Melbourne: Victorian Public Sector Commission.

<sup>7</sup> State of Western Australia (2017). ‘Working Together, One Public Sector Delivering for WA. Service Priority Review’. Perth: State of Western Australia, 14.

<sup>8</sup> McGowan, Mark (2017). ‘Service Priority Review to deliver lasting reform of the public sector’. Media Statement, May 4, 2017, Perth: Government of Western Australia.

<sup>9</sup> State of Western Australia, ‘Working Together’, 145.

<sup>10</sup> See Government of Western Australia (2018). ‘Public Sector Reform Newsletter’. Perth: Department of Premier and Cabinet.

<sup>11</sup> State of Western Australia, ‘Working Together’, 145.

<sup>12</sup> Amit, Raphael, and Paul Shoemaker (1993). ‘Strategic Assets and Organizational Rent’. *Strategic Management Journal*, 14 (1), 35.

- They assess the 'organisational capabilities of individual departments and...publish results that can be compared across departments';<sup>13</sup>
- They are 'usually run by an independent panel' consisting of 2-5 members drawn from inside and outside the public sector, with administrative support provided;<sup>14</sup>
- The 'method of the enquiry is qualitative, using a combination of desktop analysis, one-on-one interviews...focus groups' and surveys;<sup>15</sup>
- Both senior leadership and other staff are interviewed or surveyed. Stakeholders or citizens may also be interviewed or surveyed;
- Questions focus on particular areas or 'domains' of capability such as leadership, strategy and delivery, to see if agencies meet standards of better practice, and to establish where improvements should be made. Domains range in number from three in the UK and the Commonwealth to seven in the New Zealand model;
- Agency self-assessment informs the independent review panel, and allows agencies to develop awareness of and engage with the process, and to track progress and improvements;
- Results are moderated to allow comparisons across agencies, and to provide an overview of the public sector to inform central agencies and ministers;<sup>16</sup>
- Following a review, 'each agency must prepare an action plan for...current and future delivery';<sup>17</sup>
- The assessment then drives improvement in the agency, before further reviews of progress against the plan, and evolution of the agency review process as agencies and the review process itself adapt.<sup>18</sup>

Hence capability reviews are not primarily backward-looking performance evaluations or audits. Rather they provide avenues for future capability development over time. They act to assure the public of the commitment from the public sector to informed reflection and improvement. They provide a broad overview of the development needs of the public sector, and provide reassurance to ministers of progress and future development of their agencies. They also help agencies to identify - and act - on medium term development needs, and measure progress on meeting these development needs.

### 1.3 A new framework for agency capability reviews

In this Occasional Paper, we provide a recommended capability review framework for Australian jurisdictions, for use in developing the capability of individual departments and other large agencies. This paper draws heavily on work commissioned from ANZSOG by the Western Australian PSC to assist the PSC to implement a program of reviews in Western Australia. The authors, and ANZSOG, acknowledge with gratitude the willingness of the PSC to allow us to share with other governments and with scholars what we learnt in the course of that project.

This paper refers on a number of occasions to 'the Commission'. Such references reflect the authors' view that the most appropriate entity in any jurisdiction to run a program of capability reviews is the public service or public

<sup>13</sup> State of Western Australia, 'Working Together', 145.

<sup>14</sup> State of Western Australia, 'Working Together', 145.

<sup>15</sup> State of Western Australia, 'Working Together', 145.

<sup>16</sup> Sunningdale Institute (2007). 'Take-off or Tail-off? An Evaluation of the Capability Reviews Programme'. London: Sunningdale Institute.

<sup>17</sup> State of Western Australia, 'Working Together', 145.

<sup>18</sup> State of Western Australia, 'Working Together', 145.. See also Sunningdale, 'Take-off'; Panchamia, Nehal and Peter Thomas (2014). 'Capability Reviews'. London: Institute for Government.

sector commission (or equivalent). Those bodies have responsibility for improving individual capability and in some cases organisational capability across the public sector. Australasian experience to date of capability reviews supports that proposition. That said, any jurisdiction that decides to embark upon a program of capability reviews should also consider other options for managing the program (for example, a first minister's department).

To develop an 'ideal type' of capability reviews, we reviewed former or existing capability review frameworks from the UK, New Zealand and the Commonwealth, and also the Canadian MAF. In the case of the UK and New Zealand, we were able to review important unpublished documentary material, and we express our appreciation to the people who provided those documents. In addition, we consulted with experts with experience relevant to capability reviews in the three key jurisdictions.

There is significant variation in frameworks across jurisdictions. Both the Australian and New Zealand programs were strongly influenced by the UK framework, albeit with important innovations in New Zealand's case. Canada's MAF was largely audit-focused and is considered to be qualitatively different from the other three frameworks. The next part of this paper explores some of the nuances of the different frameworks and considers the lessons to be drawn from them.

This Occasional Paper posits a framework for capability reviews for Australian jurisdictions that wish to use them. Our framework synthesises what we consider to be the most desirable features of the various existing frameworks with some new ideas on how to maximise the value of such reviews.

There is comparatively little published research on the impact of capability reviews in the UK, New Zealand and the Commonwealth. Much of the published material is 'grey literature' of mixed rigour. There is a need for evaluation of the new programs of reviews to be undertaken in Western Australia and the Commonwealth. Such research should consider both the impact on agency performance, and the various types of benefits and costs involved in the reviews. Nevertheless, our analysis of the available literature and of unpublished material suggests that capability reviews hold considerable potential for improving agency performance.

## 2. LESSONS FROM PREVIOUS CAPABILITY REVIEW PROGRAMS

### 2.1 UK Capability Reviews

Reviews in the UK focused on agency preparedness to meet present and future challenges. They sought to provide assurance that agencies could deliver better outcomes for the public and the government. The UK framework was applied to 17 departments over five years, and was later refined to focus on delivery and 'value for money'. Departments previously reviewed were subject to a second review using the refined framework.

While evolving over time, the model proceeded as follows:<sup>19</sup>

- External assessment was carried out initially by a five-member review team - two directors-general from other departments (roughly equivalent to Commonwealth deputy secretaries), and three members from the private, public,<sup>20</sup> or voluntary sectors. Later a three-member review team was used, composed according to the same principle. There was no pre-appointed chair;
- Directors and deputy directors in the Prime Minister's Delivery Unit in the UK Cabinet Office led and managed the process to ensure quality and focus;
- An ex-recruitment consultant was hired as part of the Cabinet Office team to assist in selection of all reviewers – external and internal;
- Assessments involved an intensive period of interviews and workshops over two weeks following extensive preparatory work;
- These assessments were focussed on the capacity for future delivery, based on some 100 interviews of senior officials and a series of workshops as to what explained success. Forty questions were asked in the three domains of:
  - Leadership,
  - Strategy, and
  - Delivery;
- Results were summarised by a five-point "traffic light" rating scale: *Serious Concerns*, *Urgent Development Area*, *Development Area*, *Well Placed* and *Strong*;
- Results were published, after moderation to allow for comparison across agencies;
- The reviewed agency then provided an 'action plan'. This was published with the report of the review;
- Progress against the action plan was evaluated in three, six and twelve month 'stocktakes'; followed by a two-year follow-up review to assess progress;
- From 2008, a more explicit focus on delivery and value for money was adopted.

<sup>19</sup> Drawn from Sunningdale, 'Take-off'; Panchamia and Thomas, 'Capability Reviews'; and interviews and personal communications with leaders and participants in the process, carried out late 2019 to early 2020.

<sup>20</sup> These were most often chief executives of local authorities with a very good reputation, or large health trusts, or of large national voluntary organisations.

Capability reviews were renamed and revised as Capability Action Plans in 2010 under the coalition (Conservative – Liberal Democrat) Government. The new model was based on self-assessment with no external review. It was perceived by some key players as having limited credibility. This in turn was replaced in 2012 by Departmental Improvement Models and Departmental Improvement Plans.

### Lessons from the UK Framework

The UK framework provides key lessons for frameworks elsewhere. Strong leadership from O'Donnell garnered support from key agencies and officials. His personal leadership of meetings with permanent secretaries throughout the process was vital: it created a sense of personal accountability on their part. The downside was that with the departure of O'Donnell in late 2011, impetus was seen by some commentators to be lost.

Political support was obtained at the beginning of the project from the then Prime Minister Tony Blair, which provided a strong authorising environment and impetus for the program. Prime Minister Blair also helped to 'take the politics out of' the process, to ensure that ministers could not use reviews against their departments, and to establish the independence of the process from ministers. A change of government meant a change of focus, and loss of support for the framework. However, there are differing views whether this was the primary reason for the abandonment of the framework, with one commentator seeing its demise as more a result of the program fulfilling its potential and reaching the end of its useful life.<sup>21</sup>

Strong and independent reviewers, a well-resourced secretariat, numerical scores, and publication of the results gave the reviews credibility.<sup>22</sup> Permanent secretaries engaged closely in the process. The reviews were perceived to be applied consistently across departments according to some sources and facilitated openness and a sense of shared purpose across participants, albeit with some tension with the moderation process and conclusions sometimes perceived to be formed from somewhat limited evidence.<sup>23</sup> Self-assessment was perceived to be useful, as according to one commentator it was used to supplement independent reviews, and to track and internalise progress against recommendations. Moreover, the reviews put 'capability improvement...firmly on the agenda and [gave] it a greater sense of urgency.'<sup>24</sup> This in turn facilitated and legitimised improvements in some agencies.

In general, capacity and leadership were perceived to be improved after reviews. A 2007 study of 219 directors and deputy directors by the Sunningdale Institute found that 64 percent saw the reviews as very or quite effective in delivering intended changes, with greater perceived impact on external engagement, internal strategy and leadership, and less on delivery, skills and efficiency.<sup>25</sup> Figure 1, from a 2014 Institute for Government study, summarises perceived benefits: better strategic planning; improved staff skills; better communication internally and with stakeholders; and improved processes. Figure 2, from the same study, shows the perceived effectiveness of capability reviews: improved engagement, strengthened leadership and strategy, and improved knowledge of performance. It also highlights that the reviews were less effective in building effective delivery models, doing more with less, and developing skills to meet current and future challenges. These points have been taken into account in developing the proposed model of capability (see Appendix 1)<sup>26</sup> – for example, an emphasis on strategic workforce planning.

<sup>21</sup> Several people were interviewed on the basis of their comments being referred to anonymously.

<sup>22</sup> Sunningdale, 'Take-off', 10-13; Panchamia and Thomas, 'Capability Reviews'.

<sup>23</sup> Sunningdale, 'Take-off', 11.

<sup>24</sup> Sunningdale, 'Take-off', 15.

<sup>25</sup> Sunningdale, 'Take-off', 15.

<sup>26</sup> As noted in Part 4, the proposed model is based on that used by New Zealand in its Performance Improvement Framework.

Figure 1. Changes as a Result of Capability Reviews



Figure 2. Effectiveness of Capability Reviews



Source: Nehal Panchamia and Peter Thomas, 'Capability Reviews', London: Institute for Government, 2014.

There were however some critiques of the framework. Linkages were seldom established between the reviews and whole-of-government cooperation and performance beyond a single agency.<sup>27</sup> Lack of benchmarking for best

<sup>27</sup> Sunningdale, 'Take-off', 1.

practice – including against private sector organisations – was also an issue. Evidence of public and ‘customer’ satisfaction was lacking. The 2007 evaluation noted that departments could be selective in choosing how to engage with review findings.<sup>28</sup> Deficits were noted in improving delivery of services and delivering ‘more with less’, and in developing skills for future challenges (Fig. 2). In some cases, the concern over a lack of focus on results, future challenges, the views of stakeholders, and a longer-term view across the whole-of-government were explicitly addressed – albeit with mixed results – in the New Zealand model, which is discussed below.

There was also some concern over a limited ability to show demonstrable benefits from the reviews. A 2009 National Audit Office review could not establish clear causal links between capability reviews, measurable improvements in capability, and improvement in results/outcomes/service delivery.<sup>29</sup>

Moreover, the UK framework demonstrated the potential vulnerability of a capability review program to changes in bureaucratic and political leadership. The capability reviews were strongly identified with the Cabinet Secretary and Prime Minister Blair. The reviews did not survive their departure. In contrast, the New Zealand framework discussed below has managed to make the process a largely non-controversial and non-political one that so far has survived changes of personnel and government, suggesting that this issue is not insurmountable.

The UK framework also demonstrated the vital importance of robust independent assessment; and how its absence can undermine the very credibility of the process. A later move to self-assessment only, abandonment of ratings, and lack of comparability across departments, is widely perceived as undermining the rigour and credibility of assessments. The replacement Department Improvement Plans and Models had a greater future focus, but also lacked credibility due to the absence of external review.

## 2.2 The Australian Commonwealth Capability Reviews (2011-2016)

The Commonwealth agency assessment process largely replicated the UK framework, as follows:

- Initial agency self-assessment.
- External assessment by two experts external to the APS,<sup>30</sup> and one from another agency at deputy secretary level, supported by a team in the Australian Public Service Commission (APSC), including some secondees.
- Forty standardised questions were asked in three areas: (1) Leadership, (2) Strategy, and (3) Delivery. These were heavily based on the UK model of capability, and assessed an agency’s ability to meet future objectives and challenges. The key difference to the UK model was the lack of focus on ‘value for money’, to avoid the process being seen as a cost cutting exercise and generating a degree of resistance.
- A 4-point “traffic light” rating scale was adopted: Serious Concerns, Development Area, Well Placed, and Strong.
- There was some comparison across agencies by way of an informal moderation process, but this was limited.

<sup>28</sup> Sunningdale, ‘Take-off’, 14; see also Panchamia and Thomas, ‘Capability Reviews’.

<sup>29</sup> National Audit Office (UK) (2009). ‘Cabinet Office Assessment of the Capability Review Programme’. Report by the Comptroller and Auditor General, HC 123 Session 2008-2009, London: National Audit Office, 7. According to that report, the cost of the reviews was £5.5m or £324,000 per agency reviewed in 2007-08 prices (at 10). However, these were notional rather than actual costs. Neither external nor internal reviewers involved cash outlays. Departments in essence paid in kind: they were charged £150k per review less a discount for any staff they seconded to the core Prime Minister’s Delivery Unit team. Peter Thomas, Personal Communication, February 2021.

<sup>30</sup> Former heads of department were often used.

- 22 of 25 agency results were published. The three not published were pilots; the commitment not to publish was made to encourage the relevant secretaries to participate while the process and capability model were refined.
- An agency action plan was agreed between the agency head and the APSC Commissioner to achieve positive capability outcomes, with quarterly progress reports, and 12-month 'health check'.
- Reviews were generally completed within six months.
- There was only one round and the program ceased in 2016 due to lack of government and agency support.

The Thodey Review found that the Commonwealth's original agency reviews 'were generally considered a useful point-in-time snapshot of agency capability'.<sup>31</sup> It noted that the quality of the external reviewers was crucial and helpful to the heads of agencies under review. Self-assessment was seen as important in locking-in benefits and providing ownership of the review. Commentators on the reviews to whom we spoke noted the important role they played in developing agency-wide and service-wide understanding for reviewers, particularly for the deputy secretaries involved as reviewers (of other departments).

As in the UK, the abandonment of the Capability Review Program in 2016 shows that it was unable to maintain political and other support. The framework was seen by ministers in the Abbott Government as lacking alignment to government priorities. And the leadership of the public service – both at the Australian Public Service Commission (APSC) and the Department of the Prime Minister and Cabinet – had changed. Even so, the capability assessment framework has been used subsequently by the Commonwealth on two occasions.<sup>32</sup> A longer period of operation may have seen the program better able to deliver and demonstrate benefits, particularly given relatively fewer resources devoted to it, as compared to the British reviews.

Issues of reputation could become difficult when agencies faced poor assessments. While the ostensible focus was on agency improvement, there was always a potential for the process to be perceived as one of compliance and current performance assessment. This possibility could lead to tension in relationships with some agencies. However, the majority of secretaries found the reviews to be useful. Importantly, secretaries were judged not on a review's assessment of the agency, but on their action to respond to those findings.

The Thodey Review found some capability reviews exhibited 'limited acknowledgement of challenges in the APS' current or future operating environment and did not fully address the readiness of agencies to meet emerging needs.'<sup>33</sup> In addition, the Thodey Review found that 'follow-up reviews to track improvements in organisational effectiveness did not occur, limiting their long-term impact.'<sup>34</sup> That said, action plans were developed and implemented following the reviews; they were monitored by the APSC at least until the program was abandoned. The lack of follow-up reviews may have been due to the cessation of the review program.

In sum, lessons from the original Commonwealth model include the importance of generating support from political and bureaucratic actors by showing the benefits of the process to both; and providing clear rationales for the process, and directions for potential improvement. Moreover, positive results will likely arrive after some attempt is

<sup>31</sup> Commonwealth, 'Our Public Service', 70.

<sup>32</sup> In 2017 Austrade (with the APSC) commissioned an Organisational Capability Assessment (available at <https://www.austrade.gov.au/ArticleDocuments/1358/Austrade-Organisational-Capability-Assessment.PDF.aspx>), and in 2019 the APSC commissioned a capability review of itself (available at [https://www.apsc.gov.au/sites/default/files/australian\\_public\\_service\\_commission\\_-\\_capability\\_review\\_and\\_future\\_strategy.pdf](https://www.apsc.gov.au/sites/default/files/australian_public_service_commission_-_capability_review_and_future_strategy.pdf)). The Austrade review used the previous APSC capability assessment model, and augmented it with a five year excellence horizon (borrowed from the New Zealand Performance Improvement Framework – see section 2.3 below). The APSC review used a similar model of capability, but with a four-year excellence horizon. In neither report is there a detailed description of the model of capability or the method of the review.

<sup>33</sup> Commonwealth, 'Our Public Service'.

<sup>34</sup> Commonwealth, 'Our Public Service'.



made to apply lessons from reviews, and track improvements over time. And the independence, training and robustness of reviewers were seen as crucial.

## 2.3 New Zealand's Performance Improvement Framework (2009–current)

The PIF introduced some significant changes to the UK framework. It has an explicit focus on the role of capability in producing results – delivering government priorities and core business (such as services) – and describing what future success might be, including providing a benchmark. It directly addresses some of the concerns about the UK (and original Commonwealth) framework, including responding to government priorities, and focussing on development and recommended change over the medium term - and how this might be achieved - through a 'Four-year Excellence Horizon'. The number of domains of capability investigated is larger – seven rather than three – and the scope of the model of capability more comprehensive. Assessments are intended to have a forward-looking focus on the opportunities for improved performance in the face of future challenges. In contrast to the UK and original Commonwealth models, the PIF continues to operate and has maintained a degree of political and bureaucratic support.

The assessment process is as follows:

- Initial agency self-assessment;<sup>35</sup>
- Two independent reviewers selected by the Public Service Commission,<sup>36</sup> supported by a Commission staff member, review information from the Commission and conduct extensive interviews. If necessary, an advisor who is expert in a technical field (such as intelligence or social work) is also used;
- There are 30 questions in seven areas:
  - Delivery of Government Priorities
  - Delivery of Core Business
  - Leadership and Direction
  - Delivery for Customers and New Zealanders
  - Relationships
  - People Development
  - Financial and Resource Management;
- An explicit focus on achievement of results – delivery of government priorities and core business – (alongside organisational capability) distinguishes the PIF from review frameworks in other jurisdictions;
- From 2011 a Four-Year Excellence Horizon was introduced to the framework to capture the overarching themes and priorities for improvements over the medium term, and to provide a benchmark for their achievement;
- Ratings are given on a four-point “traffic light” scale, rating agency capability to meet future challenges in delivering results (government priorities and core business) and in the various elements of organisational

<sup>35</sup> Self-assessment was introduced after the pilot phase. It replaced the original intensive desktop review undertaken by central agencies' officials prior to the independent review.

<sup>36</sup> The State Services Commission introduced the PIF in 2009. The Commission was renamed the Public Service Commission in the *Public Service Act 2020* (New Zealand).

management as *Weak*, *Needing Development*, *Well-placed*, or *Strong (Excellent)*. Unable to rate/not rated is also used, albeit seldom;

- Peer review of the panel's draft report is undertaken by three other independent lead reviewers and officials from the three central agencies;<sup>37</sup>
- The agency provides a statement of its commitment to specific performance improvements in response to the findings, with appropriate milestones for inclusion in the report;
- The central agencies provide a statement of their support for the agency's commitment;
- The full PIF Review report (with the agency's and central agencies' statements) is published;
- The agency's progress on its commitment to improve is followed-up in 12 – 24 months, by agreement between the agency chief executive and the Commissioner. Many but not all agencies have had a follow-up review<sup>38</sup>;

The New Zealand PIF is widely perceived to be a success. Consultations suggest this perceived success is attributable to a number of factors:

- a mandate from the Prime Minister and Deputy Prime Minister/Minister for Finance at the inception of the program;
- support from the chief executives and other senior agency leaders;
- the treatment of the process as one that is 'business-as-usual' and owned by the Public Service Commission, limiting its ability to fan controversy;
- a strategic focus;
- open and honest engagement;
- a broader scope that includes not just agency capability but also actual delivery; and
- the evolution of the model over time to respond to identified issues and to reflect developments in public service practice.

PIF reports were perceived by the Commission as useful for overseeing governance and areas for improvement, while allowing for a watching briefing over the public sector, including a focus on multi-agency and sector-wide initiatives and improvement.<sup>39</sup> An independent academic evaluation suggested majority support for the PIF from respondents to surveys, with reviews helping to develop an 'organisational narrative' and deeper awareness of roles, strategic mission, leadership, stewardship and culture for agencies. Management for outcomes was seen to be improved.<sup>40</sup>

<sup>37</sup> The Departments of the Prime Minister and Cabinet and the Treasury, and the Commission.

<sup>38</sup> Victoria University of Wellington School of Government (2017). 'Independent Review of the Performance Improvement Framework'. Wellington: State Services Commission, p.ix. See also New Zealand Government (2015). 'Performance Improvement Framework, Core Guide 1: What is the Performance Improvement Framework?'. Wellington: New Zealand Government, 29, which notes that a follow-up review occurs where it is agreed between the central agency chief executives and the CEO of the relevant agency.

<sup>39</sup> New Zealand Government, 'Core Guide 1'.

<sup>40</sup> Victoria University Wellington, 'Independent Review'; Allen, Barbara, and Elizabeth Eppel (2019). 'Holding on tight – NPM and the New Zealand performance improvement framework'. *Australian Journal of Public Administration*, 79(2), 171-186.

However, a number of caveats should be noted. Evaluations of the PIF have claimed:<sup>41</sup>

- the continued existence of game playing, including attempts to recruit more favourable reviewers and protect reputations;
- a disjunction between claimed and measurable or actual performance;
- a focus on backward-looking assessment of performance despite the intended 'future focus' on performance improvement. Hence the reviews were and perhaps are still perceived by some to act as performance assessments or evaluations;<sup>42</sup>
- a related tendency to view the process as one of compliance and control imposed externally, rather than as something focused on self-directed internal agency improvement;
- a concern by some with the 'traffic-light' ratings and consequent excessive focus on reputational management;
- concerns that the rating system was not conducive to learning and long-term thinking;
- lack of attention to examination of cross-agency issues;<sup>43</sup> and
- the PIF is burdensome when added to other extensive review and accountability mechanisms that are already highly resource intensive.

As noted above, evolution of the model (including the review methodology) has occurred since its inception, in part to seek to overcome these problems. For example:

- The Commission established a cadre of independent 10-15 reviewers through open tender in 2011 (refreshed periodically) and offers an agency head a limited choice from a subset of that cadre. The Commissioner must be satisfied that the proposed lead reviewers provide the appropriate mix of expertise and challenge for the agency under review;
- Through collective discussion and a peer review process, the lead reviewers aim to hold each other to account for consistency in application of the rating scale. It is said that they have become stricter in awarding higher ratings;
- The earliest reviews were more like performance audits or assessments, but the emphasis changed, as indicated by the introduction of the Four -Year Excellence Horizon in 2011. Now the reviews seek to focus only on performance and capability improvement, regardless of how well the agency is currently performing;
- The original plan to undertake reviews on a regular cycle proved impractical, because of clashes with other reviews and priorities. Reviews are now scheduled when likely to be of best value to the agency's chief executive and the public service and to fit in with other agency, sector and governmental priorities;

<sup>41</sup> Allen and Eppel, 'Holding on tight'; and Victoria University Wellington, 'Independent Review'. These are supplemented by our consultations.

<sup>42</sup> Helen Moody, Personal Communication, November 2020.

<sup>43</sup> Nevertheless, we note that in 2016 a joint initiative between the State Services Commission and seven education agencies produced a 'Blueprint for Education System Stewardship' using the methodology of the PIF. Agency leaders worked together with PIF Lead Reviewers to describe their ten and four-year excellence horizon and how their agencies could best collaborate to contribute to priority outcomes. The Department of the Prime Minister and Cabinet and the Treasury were also involved. New Zealand Government (2016), 'A Blueprint for Education System Stewardship'.

- The most recent changes to the capability model, implemented during 2016, included elements dealing with an agency's sector contribution and its collaborations and partnerships, to cover different aspects of cross-agency issues and inter-dependencies<sup>44</sup>

As such, the New Zealand PIF provides important lessons. First, the selection and training of confident and experienced reviewers will be crucial in delivering benefits. Second, reviews are likely to be perceived to contain elements of performance assessment, especially when the nomenclature of performance and explicit analysis of it are used. Hence management of expectations, and a focus on future development and learning remain key to successful implementation and program maintenance. Third, there is likely to be concern that whole-of-government factors can be neglected. Linking agency assessment with broader cross-government issues and priorities is something that needs to be managed carefully. Fourth, careful management of implementation, and adjusting the framework to learn from experience over time, can limit controversy generated by reviews and build greater constituencies for their survival and further evolution. Fifth, the lack of a rigorous moderation mechanism of the kind found in the UK framework might make cross-agency comparisons highly subjective and generally problematic.

## 2.4 The Canadian Management Accountability Framework (MAF)

The Treasury Board of Canada Secretariat (TBS) began annual quality assessments of departmental management practices in 2003 through the MAF, which influenced some ideas and methods of assessment that would later be adopted and refined in the UK. The MAF is perhaps better conceived as a management performance audit, although it does have a focus on management improvement. The MAF was recently revised to be more 'data driven' and to focus more on performance. However, the model's largely audit focus means that it is less relevant to the design of a framework for capability reviews.

The annual MAF has lasted through 16 years and more than one change of government.<sup>45</sup> It was developed under the Chrétien and Martin Governments, which were keen to demonstrate a commitment to management improvement and accountability. Introduction of the *Federal Accountability Act 2006* by the incoming Harper Government added further political impetus to the MAF. Although driven by the TBS, from the beginning it elicited support from heads of department. The TBS has a dedicated unit to support the MAF reviews. A recent evaluation carried out by the TBS in 2016-17, albeit based on only nine interviews with agency heads and a document survey, was generally supportive of the process.<sup>46</sup> Recently introduced features such as use of comparators and 'notable practices' were seen to add value for organisations. Results are presented in a sectional comparative focus to allow benchmarking across agencies.

Views on the utility of the MAF are mixed. The TBS evaluation noted that the 'government-wide' information helped to understand strengths and gaps in compliance. However, views of usefulness varied by audience. Some smaller agencies questioned the relevance of the reviews. The evaluation found some overlap with other accountability mechanisms. There was seen to be ground for improvement in the design of questions asked, and the limits in reporting of (and time lags in publishing) results of the reviews. The broader context for organisations was sometimes seen to be lacking.

While MAF results are used to improve management processes, in general the results are used to identify issues and potential risks, and raise the profile of management functions. Results are also used in individual performance

<sup>44</sup> Helen Moody, Personal Communication, January 2021. Helen Moody provided information and advice to ANZSOG in her capacity as Performance Review Manager, Te Aromātai Whakatutukitanga, Te Kawa Mataaho Public Service Commission, New Zealand. Any views expressed are her own and not those of the Commission.

<sup>45</sup> The following is derived from: Government of Canada (2016). 'MAF Assessment Process'. Ottawa: Government of Canada.

<sup>46</sup> Government of Canada (2017). 'Evaluation of the Management Accountability Framework'. Ottawa: Government of Canada (available at <https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/evaluation-management-accountability-framework.html>) (Accessed 15 February 2020).

assessments, including for heads of department, but the influence of the MAF for this purpose and others appears to be declining.

MAF assessments rely largely on information provided by departments or agencies (as opposed to site visits, interviews, or surveys) so the robustness of the assessments is questionable. In some cases, agencies were seen as supplying evidence and answering questions to protect reputation, rather than focus on areas of improvement.

Some argue that the TBS spends relatively few resources on gauging departmental capability and does not provide sufficient support to departments to help them remedy management weaknesses.<sup>47</sup>

In sum, while informing other capability review frameworks, the Canadian MAF highlights some of the pitfalls of an overly performance focused assessment or audit, the dangers of a lack of independent review, and a lack of focus on forward thinking and organisational development.

## 2.5 Conclusion and Key Lessons

While there are differences between review frameworks, key lessons can be derived.

First, the importance of a robust process, including experienced and well supported independent reviewers, is highlighted across all frameworks. Such a process has a number of dimensions. Commentators and former participants highlight the vital role that a body of high-quality reviewers, independent of the agency under review, plays in providing expertise and challenging the views of the agency and its leadership. Several reviewers rather than a single independent reviewer were strongly recommended by the former participants in capability reviews we consulted for this reason. Open and transparent processes and assessments, including publication, increase the credibility and utility of reviews. Secret reviews are unlikely to lead to better or credible reviews, nor to improvements in agency or government outcomes. Adequate resources, including time and administrative support, are needed for reviewers to fulfill the potential of their roles, and for the process to bed-in and evolve. Training is also suggested for reviewers.

Second is the importance of maintaining a developmental and forward-looking focus in assessments, and being clear on the aims and potential benefits of reviews. Reviews must not become – or be seen as – an exercise in compliance. At least initially, reviews might be perceived as containing an element of backward-looking performance evaluation, with potential reputational damage. Limiting controversy and accentuating the development focus are likely to generate benefits in maintaining support for the process, limiting game playing, and leading to more serious engagement with avenues of improvement. New Zealand's Four-Year Excellence Horizon provides a useful way to emphasise the organisational development objective.

Another major innovation from the New Zealand PIF is the introduction of an explicit focus on results (outputs, outcomes and responding to government priorities). However, this feature of the PIF introduces a further element of performance assessment, which can muddy the waters on an ostensible future improvement focus.

Third, a limited focus on whole-of-government issues, and coordination across agencies is a deficit perceived in some frameworks. Complex or 'wicked' problems are an increasing focus of attention for governments around the world. How the concept of capability reviews could be used to tackle such problems is a question that requires further work. Assessing capability to meet major cross-cutting challenges might well require a different kind of framework to one focused on individual agencies. In considering such a framework, the characteristics of complex systems are likely to be important. For present purposes, the proposed model of capability (Appendix 1) does highlight the extent to which an agency works across government. Similarly, the use of benchmarks and what is

<sup>47</sup> Lindquist, Evert (2009). 'How Ottawa Assesses Department/Agency Performance: Treasury Board's Management Accountability'. In *How Ottawa Spends, 2009-2010: Economic Upheaval and Political Dysfunction*, edited by Allan M. Maslove, 47-88. Montreal: McGill-Queen's University Press.

perceived as better practice could lead to better comparative outcomes, and clear directions and measures for improvement.

Fourth, the benefits of a program of capability reviews might well take some time to become manifest. Moreover, a capability review framework is likely to evolve once in operation. That has been the experience with the New Zealand and to some extent the UK framework. Expectations of a review program as a quick-fix, one-shot process, are likely to result in disappointment. As the review process becomes more routine, and as agencies become better accustomed to it and internalise aspects of it – including through self-assessment – there is a greater likelihood of positive results.

Consequently, the authorising environment for a capability review program is of vital importance. There is something of a paradox about this idea. On the one hand, political and bureaucratic support for a program of capability reviews at its inception and throughout its implementation is vital. Ministers need to commit the necessary resources for a program to be implemented well, over quite a number of years, and to accept the fact that in the early stages of a review program, the media is likely to transform constructive criticism of agencies into cheap criticism of ministers. Ministers need to understand that building the capability and thereby improving the performance of their agencies will, over the medium-term, produce political benefits. Moreover, the experience of all key jurisdictions highlights the need to sustain support for a program of capability reviews (including appropriate resourcing) following a change of government. That suggests the possibility of seeking a bipartisan commitment to support for the idea. Improved public sector performance is in the interests of whichever party holds government, because it enables the governing party to implement its platform more successfully. On the other hand, for a program to work well, reviews should be depoliticized. They should be, and be seen as, a process owned and run by the bureaucracy without any ministerial interference. In addition, all ministers should understand that the first minister will not treat findings about their department or a statutory authority in their portfolio as criticism of ministerial performance.

### 3. CRITICAL DESIGN CHOICES FOR AN AGENCY CAPABILITY REVIEW FRAMEWORK

#### 3.1 Summary

This part outlines key design decisions to be made when designing a capability review and explains the rationale for our preferred framework. These decisions include:

1. **Should agency performance, as well as agency capability, be explicitly assessed?** In some cases, there can be some creative tension between the two aspects, but we argue that the focus should be on developing capability rather than simply auditing performance, and the name of the process should reflect this. We do *not advocate an explicit assessment of results* for this reason.
2. **What form should independent review take?** Independent external review is recommended in most assessments of capability reviews. We propose *three independent reviewers* from a range of backgrounds to better guarantee robustness, credibility, and a complementary range of expertise. Agency self-assessment would both inform and later bed-in this independent assessment. Reviews would draw on existing documents, and use surveys and interviews with leaders, agency staff, stakeholders, and citizens/clients.
3. **Should a rating scale be used?** A rating scale – widely used in other models – is proposed to provide credibility, transparency, comparability across agencies, and a benchmark for further development. We suggest a *four-point scale* consisting of: Developing Well; Developing; Needs Development; and Needs Considerable Development. We also propose the use of ratings to assess two different issues - current capability, and preparedness for the likely medium-term requirements of the agency – to recognise that most agencies will not score highly on the latter.
4. **What time scale should assessment focus on?** We find New Zealand's focus on the medium term of 4 years compelling and argue for the adoption of New Zealand's 'Four-Year Excellence Horizon' or similar. Longer time frames entail greater variability of conditions, and slippage on improvements.
5. **Should results be published?** We strongly advocate that results are moderated and published to maintain credibility of findings, ensure comparability across agencies and a snapshot of the sector, and provide a benchmark and guidance for improvement.
6. **What resources will be needed?** We propose that costs of the reviews be split approximately 50:50 between the Commission and the agency being examined, and envision that reviews will take around 4-6 months from the beginning of the process to the end.

#### 3.2 The objective of a capability review program

The ultimate objective of a capability review program is to improve outcomes for citizens, through continuous improvement of the performance of major public agencies.

The design of a review model, including the process for conducting the reviews, should be guided by a theory of action consistent with that objective.

## A Proposed Theory of Action



A capability review program is as much a corporate change program as a review program.<sup>48</sup> Thus a review should not be something that is done *to* an agency, but rather a project done *with* the agency. It should be seen as a valuable organisational learning exercise.<sup>49</sup> At the same time, it needs to be acknowledged that the full potential of a review will only be realised if the assessment is frank and objective.

Nevertheless, there are inescapable political dimensions of capability reviews. As already noted, in all of the key jurisdictions, a program of capability reviews depended upon strong support from the first minister, and support (or at least an absence of opposition) from other ministers.<sup>50</sup> Even though a program of capability reviews in those jurisdictions was initiated by a very senior public official rather than a minister, the design of a review program must be cognisant of the political implications of design choices and robust enough to withstand a change of government.

This part explains where these critical design choices lie and our views on how they should be made. In our view it is desirable that a pilot of the proposed framework be undertaken, consistently with the approach in the key jurisdictions that have used capability reviews. This could be done without publishing the results, as was done in the Commonwealth. The Commonwealth's experience was that the secretaries involved in the three pilot reviews were among the strongest advocates for the review process.<sup>51</sup>

### 3.3 Should agency performance, as well as agency capability, be explicitly assessed?

Our research indicates that the key design choices in a review framework revolve around the relative emphasis to be given to capability improvement, as distinct from performance measurement and management. In the UK and original Commonwealth frameworks, the primary focus was on improving capability. Nevertheless, in these frameworks, analysis of the current state of an agency's capability leads ineluctably to a limited assessment of the performance of the agency, especially in the capability domain of delivery. Moreover, like the New Zealand PIF, these frameworks consider whether, and if so to what extent, an agency perceives a need for performance improvement. The key design choice that distinguishes the PIF in New Zealand from the capability frameworks

<sup>48</sup> Sunningdale, 'Take-off', 8.

<sup>49</sup> Harmer, Jeff and Andrew Podger (2013). 'Capability Reviews of Australian Government Departments 2010-2013'. The Greater China Australia Dialogue on Public Administration, Dialogue Workshop: Public Sector Human Resources Management, (available at <https://www.anzsog.edu.au/preview-documents/research-output/5342-capability-reviews-of-australian-government-departments-2010-2013>) (Accessed 15 February 2020), 2.

<sup>50</sup> Panchamia and Thomas, 'Capability Reviews'. Consultations with key figures in New Zealand and the Commonwealth have made the same point.

<sup>51</sup> Steve Sedgwick, Personal Communication, November 2020.



used in the UK, the Commonwealth, and Canada is the extension of the analysis beyond organisational capability to explicit assessment of results - that is, the delivery of government priorities and core business.

The Victoria University of Wellington evaluation of the New Zealand model emphasised a perceived tension between performance assessment, which requires analysis of past performance, and organisational improvement, which is future-focused. Based largely on surveys of senior executives, it noted that:

A perceived tension does remain... with respect to the PIF's dual nature – a tool with 'designed ambiguity' driving organisations to think about public sector system issues, as well focusing organisations inward to account for operational and accountability issues. The tension between compliance versus strategic was one that many respondents returned to.<sup>52</sup>

However, the evaluation also suggested that these two dimensions need not be in tension – that assessment and improvement can be two sides of the same coin.<sup>53</sup> It can also be argued that if an agency is not currently delivering the results expected of it by ministers and the public, the agency will lack the trust and authorisation to do what is necessary to improve its performance.

As a practical matter, the performance assessment dimension of capability reviews attracts the interest of ministers, the media, agency stakeholders, and the public. It therefore leads to a focus by agency heads on reputation management that can undermine the capability improvement objective.<sup>54</sup> Our view is that the reaction of agency heads to a program of capability reviews will depend in large measure on whether they perceive it to be primarily focussed on assessment (an 'audit') or organisational improvement. Thus, to maximise the prospects of success, we recommend that the review model emphasise the future focussed objective of organisational improvement, rather than organisational performance measured by reference to outputs or outcomes.

The name of the review program should reflect that emphasis. Use of the word 'performance' should be avoided. A generic title such as 'Capability Review Program' is relatively well understood. If it were thought desirable to specify exactly what outcomes were intended by the reviews, perhaps 'Capability Review and Development Program' could be used.

A capability review program also needs to be considered as part of a larger performance and accountability 'ecosystem' focused on improving outcomes. It should therefore not be asked to do too much, or to duplicate functions better supported through other processes that aim to measure, manage, improve and ensure accountability for performance. Equally, it should complement the other elements of the ecosystem.

Thus, the review framework should not duplicate the functions of:

- 'Charter' or priority letters from the first minister to other ministers;
- Agency strategic plans and agency CEO performance plans;
- Whole-of-government budget allocation and reporting frameworks, including annual reports tabled in Parliament; or
- Reports to Parliament and Parliamentary Committees by the Auditor-General or other independent review bodies.

<sup>52</sup> Victoria University Wellington, 'Independent Review', iv.

<sup>53</sup> Victoria University Wellington, 'Independent Review', 36.

<sup>54</sup> Allen and Eppel, 'Holding on tight'.

There are, however, advantages to the New Zealand focus on results. It increases the relevance of reviews to ministers and the public; and it highlights the context and medium-term purpose of the agency (i.e., the public sector's 'stewardship' role).

On balance, the disadvantages of explicit assessment of results weigh more heavily. Such assessment overlaps with performance audits by the Auditor-General. Analysis of past performance is inherent to the PIF (the New Zealand question on core business asks, 'how well does the agency deliver value?'). This fact detracts from the focus on organisational improvement because the relevant agency head will spend considerable time seeking to defend their legacy and reputation. There are higher risks to political and bureaucratic actors, which are likely to produce pressure for involvement in assessments by the former, and more pronounced gaming behaviour by the latter.<sup>55</sup> Moreover, there are difficulties disentangling the respective contributions of agencies and ministers, and of respective agencies in relation to cross-cutting results areas.

Accordingly, our view is that a review program should not (at least initially) extend beyond organisational capability to the explicit assessment of results (delivery of core business and government priorities). Rather, it is desirable to confine the review framework to organisational capability. The accountability dimension of capability reviews should lie in the response to the findings of a review, discussed in Part 5 below.

Nevertheless, it is important to consider how well an agency understands government priorities and contributes to their achievement as part of assessing an agency's capability. It is also important to assess the quality of an agency's approach to performance management. The proposed model of capability (Part 4) reflects these criteria. It would require analysis of how, and the extent to which, an agency is improving its current delivery capability and results to deliver better future performance in future.

Reviews should thus assess the capability of agencies by reference to what is likely to be required to meet future challenges. Of course, needs analysis by reference to the future is difficult; it is easier to look backwards or to the current situation. However, much of the value of a capability review derives from this future focus.

#### **A Four-Year Excellence Horizon**

But over what timeframe? New Zealand adopted a medium-term perspective, defined to be four years. The Thodey Review proposes assessment of capability needs for high performance in the long term.<sup>56</sup> The UK and the original Commonwealth framework were not explicit about the timeframe.

Our view is that a medium-term perspective is appropriate. The long-term is a far more difficult horizon over which to plan. A four-year horizon allows for informed, realistic assessment, enough time for improvement planning by senior managers (consistent with the budget forward estimates period), and a reasonable period over which to measure improvement. While correlated with the term of a government in some jurisdictions, a four-year period will, as a matter of practice, require an agency to look beyond a single term of government. It will thus help to depoliticise the idea of capability reviews.

One of New Zealand's innovations in the development of its model is the 'Four-Year Excellence Horizon'. This is a summary of the findings, themes and conclusions about the priority areas for performance improvement, given the contribution required from the agency and its context, issues, risks and opportunities. The importance of this forecasting element is emphasised in the Thodey Review, which singles out this aspect of the New Zealand model for praise, and argues that a 'future-focus' in the New Zealand PIF allows for the identification of strategic gaps and of specific actions that might help to fill them.<sup>57</sup>

<sup>55</sup> On gaming behaviour by agency heads, see Allen and Eppel, 'Holding on tight'.

<sup>56</sup> Commonwealth, 'Our Public Service', 72.

<sup>57</sup> Commonwealth, 'Our Public Service', 71.

For the reasons mentioned above, we endorse the development of a medium-term ‘excellence horizon’ as part of a review. Analysis of the domains and elements of organisational capability should be distilled to a description of what is needed in the following four years. As the evaluation of the New Zealand model has shown, the strategic view is the most valuable part of the whole capability review framework.<sup>58</sup>

There are three other key issues that need to be resolved and that are influenced by the relative emphasis to be given to performance assessment as against continuous improvement of organisational capability.

- Whether to use an expert external review panel;
- Whether to use a maturity model or rating scale, and
- Whether to publish reviews upon completion (which depends on the view taken about the audience(s) for the reviews).

### 3.4 Self-Assessment and External Assessment

#### The importance of external assessment

Self-assessment is both important preparation for an external review and a means of encouraging senior managers to take responsibility for the process. However, it should be seen only as the initial stage in a review conducted by a panel external to the agency under review (hereafter called ‘the review panel’, to distinguish external reviewers from Commission staff in a review team that supports the external panel).<sup>59</sup> Self-assessment is likely to involve individual interviews, focus groups, and questionnaires for staff and other interested parties (more detail is provided in part 4 below). But self-assessment alone does not provide an independent view, might miss important evidence, and is insufficient to ensure the robustness and credibility of the analysis. Thus, while self-assessment is a crucial part of the review process (as outlined in section 4.9), the capability review should be conducted by an independent and externally led review panel. Such a review panel has proved to be highly valuable in the UK, the Commonwealth and New Zealand.

#### Composition of the external review panel

The UK review panel initially consisted of five senior people: three people external to government; and two directors-general (roughly equivalent to deputy secretaries) from other government departments. The 2007 evaluation found that this ‘size and composition are well designed’.<sup>60</sup> For the second round of reviews (2008-09), the review panel had three people, again with a majority of external members.<sup>61</sup> This model was largely copied by the Commonwealth, although the Commonwealth had a clearly designated chair, unlike the UK. New Zealand uses two Lead Reviewers who are not current government officials.

We recommend that the review panel comprise three people, as follows:

- a chair who is an esteemed former head of a major public sector agency (whether in the jurisdiction concerned or another jurisdiction);

<sup>58</sup> Victoria University Wellington, ‘Independent Review’, vi: ‘the “four-year horizon” is widely accepted to have pushed organisations to more strategic and long term thinking’. ‘While the measurements and scoring have become more sophisticated, they sit precariously with the four-year horizon and almost form a separate static product from the strategic dialogue elements of the PIF’.

<sup>59</sup> The UK referred to the external review panel.

<sup>60</sup> Sunningdale, ‘Take-off’, 10.

<sup>61</sup> National Audit Office (UK), ‘Cabinet Office Assessment’, 20.

- a person who is or has been a very senior executive in the private or not-for-profit sector (generally at CEO or deputy CEO level) and who has had significant experience of interacting with government, or a senior academic with substantial government experience; and
- a high-performing, high-potential, current deputy in another major agency.

This was the model adopted by the Commonwealth, and our consultations indicated that it worked well. It is desirable to have as chair a person who brings deep knowledge of and experience in the public sector, who can manage communications with the agency CEO, the Commissioner and the minister(s). The UK did not have a designated chair: a senior member of the Cabinet Office fulfilled the role of convening the review team.<sup>62</sup> However, for practical reasons we think it is preferable for such a role to be identified. We also think that it is desirable to have an ex-public sector CEO to act as chair, to maximise the credibility of the chair in the eyes of the CEO of the agency under review. At the same time, the insights of genuine ‘outsiders’ and a senior deputy from another agency have proven to be extremely valuable.

In theory fewer than three people could be used. However, diversity of perspective and experience is highly desirable to generate insights and ideas.<sup>63</sup> In addition, a panel of three is desirable to ensure consistency in assessment, and especially ratings, in a similar way that appeals from a single judge of a superior court are typically heard by a bench of three judges. Finally, the involvement of a senior deputy from another agency has multiple benefits. It emphasises the idea that a review is part of what senior executives do – not just something imposed from outside that is to be resisted.<sup>64</sup> In addition, we heard from several people involved in the original Commonwealth reviews how valuable it was for the deputy from another agency. Including such a person on the review panel serves a significant developmental function for those considered to be potential future agency heads; indeed, we understand that in the Commonwealth there was high demand to join a review panel.

In summary, a three-person review panel with a majority of members who are not current public servants in the relevant jurisdiction provides as much objectivity as possible, an appropriate degree of challenge to agencies, coaching for agency heads, and potentially a trustworthy source of advice to ministers.<sup>65</sup> It also ensures that the credibility of the review program is high amongst the public sector more broadly, as well as the general public.

The quality, seniority and independence of the panel are critical to the success of the review. Section 4.3 discusses approaches to the selection of review panel members.

### 3.5 A Rating Scale

The UK, New Zealand and the Commonwealth all used (or use) a rating scale, together with appropriate colours for each rating.<sup>66</sup> Some variant of the following scale was employed:<sup>67</sup>

- Strong/excellent;
- Well placed;
- Development area;
- Weak/serious concerns;

<sup>62</sup> Peter Thomas, Personal Communication, November 2020.

<sup>63</sup> One former Commonwealth reviewer described the diversity of views as ‘a critical success factor’.

<sup>64</sup> Peter Thomas, Personal communication, February 2020.

<sup>65</sup> We understand that in both the UK and New Zealand, ministers trusted the views of external reviewers.

<sup>66</sup> See National Audit Office (UK), ‘Cabinet Office Assessment’, 48-49; New Zealand Government, ‘Core Guide 1’, 7-8; Harmer and Podger, ‘Capability Reviews’, 8.

<sup>67</sup> The UK had different descriptors for the last two points on the scale: Urgent development area; and Serious concerns. The Commonwealth used only the first four points.

- Not rated.

Although this kind of scale appears to have five points, we understand that in New Zealand, the 'Not rated' point is now hardly ever used by lead reviewers, because to do so would avoid necessary hard judgments.

There are both advantages and disadvantages of using such ratings. The New Zealand experience demonstrates that ratings can produce vigorous debate within government (in part because the media tends to (mis)read them as an assessment of performance) – but New Zealand has persisted with them. Ratings provide a strong and sharp summary of capability in different areas that is particularly useful for ministers. They force clarity of judgements and require an ability to defend those judgments with evidence and reason. They also facilitate comparisons between different agencies from a whole-of-government perspective.

On the other hand, ratings encourage gaming by agencies under review and tend to divert those agencies' efforts from organisational improvement to reputation management. The evaluation of the New Zealand model argued that there are also other problems with ratings: they can cause many interested parties, including agency staff, to ignore the strategic dimension of the review; and they are likely to cause 'data distortion' because of the pressure to show improvement over time. It concluded that the ratings were 'problematic' and 'an ongoing design issue for the PIF'.<sup>68</sup>

On balance, we recommend a rating system similar to that used in other jurisdictions. Ratings enhance the credibility of the program in the eyes of ministers and the public, and allow for high-level visibility across departments for central agencies and government.

### **Mitigating the disadvantages of a rating scale**

We also think that there are ways to minimise the disadvantages of using a rating scale. In particular, it is desirable to reduce, as far as possible, the time and effort devoted to reputation management by agency heads as a result of published ratings. A number of mitigation strategies are suggested:

- Rating capability at the level of elements (as other jurisdictions have done) rather than domains;
- Careful use of colours, which have a high emotive content. Our consultations revealed continuing support for use of colours, but it is notable that each other jurisdiction has softened the impact of the coloured rating scale by having a shade of green for the second point on the scale, and amber for the third point on the scale.<sup>69</sup> This is a useful approach. Thus, the colours used could be (from strongest to weakest) dark green, pale green, amber or orange, and red;
- Use of a multilayered and potentially interactive approach to reporting (using a digital platform);<sup>70</sup>
- Use of different language for the levels in the scale. For example, the original capability maturity model created for the US Government to assess the capability of software providers has five levels: initial, repeatable, defined, managed, optimising.<sup>71</sup> This language is however poorly adapted to assessment of public sector capability. For some years New Zealand used a scale for the purposes of benchmarking administrative and support services (quite separately from the PIF): lagging, achieving, exceeding, leading;<sup>72</sup> but that invites explicit comparisons with a theoretical benchmark, which would undermine the

<sup>68</sup> Allen and Eppel, 'Holding on tight', 10.

<sup>69</sup> The UK used two different shades of green; New Zealand and the Commonwealth used a combination of green and yellow.

<sup>70</sup> ANZSOG Work Based Project Research Study (2019). 'Using capability reviews to support public sector performance improvement in Western Australia' (unpublished paper), 31.

<sup>71</sup> Paulk, Mark C., Bill Curtis, Mary Beth Chrissis, and Charles V. Weber (1996). *Capability Maturity Model for Software*. Pittsburgh: Software Engineering Institute, 8-9.

<sup>72</sup> New Zealand Government (2014). 'Administrative & Support Services Benchmarking Report for the Financial Year 2013/14'. Wellington: New Zealand Government, 93.

developmental emphasis of the reviews. Our preference is to use developmental language to emphasise the idea of continuous improvement; and

- Perhaps most importantly, use of ratings to assess two different issues - current capability and preparedness for the likely medium-term requirements.<sup>73</sup> This approach, which is supported by the Thodey Review, would recognise that, by definition, assessment against likely future requirements is likely to lead to a rating somewhat down the scale.<sup>74</sup> Our consultations indicated that previous capability reviews have accepted this necessity, and used the rating as the starting point for a more complex conversation about building agency capability.

### **A proposed rating scale**

An important choice is how many points there should be in the rating scale. The use of a four- or five-point scale in the other jurisdictions reflects the experience of experts in evaluation: most people cannot make distinctions of more than six categories, and even six is a significant number to manage. The decision between four and five points depends on whether it is desirable to include a neutral response. The problem with that approach is that it exacerbates the statistical phenomenon of regression to the mean. We consider that it is preferable to force reviewers (and survey respondents) to commit to upper/lower half judgments.

Accordingly, we propose a four-point rating scale (with no 'not rated' option). As indicated above, developmental language is preferable. The following descriptors are suggested:

- Developing well;
- Developing;
- Needs development; and
- Needs considerable development.

A rubric for this suggested rating scale is contained in Appendix 2.

It should be noted that results can be translated into a numerical scale (as the UK National Audit Office did for its report), so that, for example, ratings for individual questions used to assess elements of organisational capability can be aggregated to form an overall rating for a domain or element of capability. Indeed, we understand that departmental heads in one other jurisdiction performed this conversion and aggregation process themselves, due to peer competition. Even so, there are statistical problems in performing such a conversion since the items assessed are not necessarily sufficiently similar to make the aggregation of ratings valid. And a further difficulty arises when aggregate numbers are used to compare different agencies, since agencies vary in scale, mission, complexity and context.<sup>75</sup>

Our consultations emphasised that what matters most is that the review process should produce consistency of ratings. This is a matter of fairness. Consistency of ratings is essential to maximise the acceptance by agencies of the assessments. It is also important from a whole of government perspective. Moderation of ratings was regarded as the 'most controversial' part of the UK process. A 2007 evaluation of the review program recommended that the moderation panel (or committee) be made more 'objective' through greater use of external people.<sup>76</sup> In the Commonwealth, two former secretaries found that ratings for the first five published reviews did 'not appear to have been applied consistently across the reviews'; possible causes of such lack of consistency were 'the style and personality of the agency head (including their openness to criticism in public reports) as well as the style of the

<sup>73</sup> Victoria University Wellington, 'Independent Review', 31.

<sup>74</sup> Commonwealth, 'Our Public Service', 70.

<sup>75</sup> Sunningdale, 'Take-off', 12.

<sup>76</sup> Sunningdale, 'Take-off', 11.

chair and senior review team'.<sup>77</sup> These concerns were reflected in our consultations. Section 4.12 discusses mechanisms to try to ensure consistency of ratings.

### 3.6 Publication

We strongly advocate that all reviews be published in full. Publication has a number of benefits. It:

- Ensures accountability to ministers and the public for the stewardship of public resources;
- Helps agency heads to implement organisational change (e.g., by explaining to staff the need for change);
- Builds public trust by providing an assurance that agencies are continuously striving to improve their performance;
- Builds a body of knowledge about public management;
- Ensures high quality, accurate reports (since publication of the reports requires that they be carefully written to stand up to public scrutiny); and
- Provides a benchmark to track and assess performance improvement for the future.

There are of course some disadvantages of publication, primarily related to the negative aspects of ratings. Drawbacks can include possible undue effort expended by CEOs on reputation management and the potential for construction of league tables. The experience of the Commonwealth indicates that the issue of publication could be the most contentious design issue for ministers and agency heads: there was substantial media interest in the reports of the original program of Commonwealth reviews.

It is however possible to mitigate some of these disadvantages. It would be desirable for publication of capability reviews to become a regular and predictable part of the ordinary business of government. It is likely that the regular publication of information that is at first of great interest to the media (such as public hospital waiting times) will result in that information becoming of less interest to journalists over time.

Whatever the likely consequences of publication, we think that the benefits of publication greatly outweigh the disadvantages (subject to the caveat that any information that could compromise the security of agency staff or the public generally should be redacted). This view is supported by the 2007 evaluation of the UK program,<sup>78</sup> our consultations, and the views of a majority of respondents in the evaluation of the New Zealand program.<sup>79</sup> In addition, the Thodey Review advocated publication of all reviews.<sup>80</sup>

The needs and views of ministers in relation to publication – especially the timing of publication – require careful consideration. Section 4.14 discusses ways to ensure that those needs can be met while not compromising the integrity of the reviews.

<sup>77</sup> Harmer and Podger, 'Capability Reviews', 8.

<sup>78</sup> Sunningdale, 'Take-off', 12.

<sup>79</sup> Victoria University Wellington, 'Independent Review', 30.

<sup>80</sup> Commonwealth, 'Our Public Service', 73. It also noted that in the original program, not all reviews had been published (70). The three pilot reviews were not made public: Harmer and Podger, 'Capability Reviews', 1. One of our consultations revealed why: the APSC was experimenting with the model and sought to encourage secretaries to participate. In New Zealand, concerns about the impact of publication have not been borne out in practice, since media and public interest in the reports of reviews has not been high; however, the political culture of the two countries is substantially different.

### 3.7 Resourcing

A review represents a substantial investment by government in the agency's capability and ultimately its performance. As was said in the evaluation of the New Zealand PIF reviews:

The resource commitments by SSC, the organisations, the lead reviewers and everyone involved in a PIF are considerable and the benefits are judged mostly to be worth it. *"It's a big resource commitment and it's a big block of public value that they're giving ... by and large the agency is getting some amazing value for a period of time"*. (quotation in original)<sup>81</sup>

Consistent with the idea that a review should be conceptualized as an investment rather than a cost, we support the principle recommended by the Thodey Review, that reviews should be jointly funded by central government and the agency under review. That principle will also help to ensure that the agency makes a serious and positive commitment to a review. A 50:50 split is a reasonable approach. We understand that New Zealand adopted a similar funding split in the early stages of the PIF.<sup>82</sup> By contrast, we note that the original Commonwealth program was almost wholly reliant on the agencies under review to resource the program on a case by case basis; such a scenario could lead to a problematic power imbalance and is not recommended.

The extent of the review process will necessarily reflect the resources devoted to the reviews. In turn those resources will depend in part on budgetary constraints and in part on the size and complexity of the agency under review. However, we consider that there is a minimum level of resourcing required to conduct the reviews in a way that leads to a robust and reliable assessment of capability. A process that does not produce such assessments could lead to the idea of capability reviews becoming discredited.

As a general observation, we note that the UK reviews were substantially better resourced than those conducted by the Commonwealth or New Zealand. The original UK process involved very considerable resources in number and seniority: initially there were four directors and 10 deputy directors in the Cabinet Office team.<sup>83</sup>

Our understanding of the resources committed by each of the three key jurisdictions to its program of capability reviews is as follows:

- The number of staff devoted to the UK Capability Reviews was at a peak of 36 in March 2006, decreasing to 21 staff members 16 months later in March 2008. We understand that in the second year of the UK's Capability Review program (2007-08), the most senior members of the review team comprised two directors (Commonwealth SES Band 2 equivalent) and one deputy (Commonwealth SES Band 1 equivalent). Four review managers (Commonwealth EL2/SES Band 1 equivalent) each oversaw a specific government department's review. Each review manager was supported by an analyst and support person.<sup>84</sup>
- Once the New Zealand PIF was established, the team was never more than eight to ten people; not all of them would be working full-time on the PIF, depending on the number of reviews in train and PIF development, master classes, and publications underway. When in full production, the senior management of the team comprised a Deputy Commissioner (Commonwealth SES Band 2 equivalent), a Program

<sup>81</sup> Victoria University Wellington, 'Independent Review', 25.

<sup>82</sup> At present New Zealand recovers costs from the agency under review in respect of the lead reviewers, the work of the Commission's Performance Review Manager, some direct analytical support, and direct expenses: Helen Moody, Personal Communication, November 2020.

<sup>83</sup> 'If we are going to fail, it won't be because we [lacked] good people', Panchamia and Thomas, 2.

<sup>84</sup> Peter Thomas, Personal Communication, February 2020.



Manager (Commonwealth SES Band 1 equivalent), three to five performance review managers, an analyst, and a support person.<sup>85</sup>

- The Commonwealth's Capability Review team was led by an SES Band 2 (part-time), and a full-time SES Band 1. Each review was managed by an EL2, and consultants of various kinds were also engaged. In the initial round of Commonwealth reviews, the APSC team to support each review comprised three to four APSC staff and a secondee from another agency.<sup>86</sup> In addition, one to two people provided a stewardship function within the review process.<sup>87</sup>

As with any project, there is a trade-off between resources and timeframes. With more resources, it is possible to complete a review within a shorter period of time. For example, the level of resourcing will influence the extent to which different activities can be done concurrently, thus shortening the overall timeframe for the conduct of a review.

The Thodey Review proposed that each review should be completed within six to eight weeks.<sup>88</sup> We understand that the original Commonwealth reviews were generally completed within three months. Even that timeframe appears too ambitious. The UK allowed up to six months for the whole process, from recruiting the review panel and beginning to build a relationship with the agency, to finalisation of the report and action plan.<sup>89</sup> New Zealand also allows for a period of around six months once a review has been commissioned: up to three months for the agency to prepare materials and book interviews, and three months for the review to be conducted and the report finalised. Four to six months for the whole process of a review would appear realistic, given the rigorous process recommended in Part 4. Whatever period is chosen should be sufficient for a robust analysis and the distillation of a strategic view, but as short as possible to minimise the administrative burden on the agency.<sup>90</sup>

As was pointed out in consultations, a report can raise questions that prompt advice to government on how the agency or the public service leaders will respond to the findings. Consequently, it might take another few months for the report to be published.

<sup>85</sup> Helen Moody, Personal Communication, November 2020.

<sup>86</sup> Steve Sedgwick, Personal Communication, February 14, 2020. See also Harmer and Podger, 'Capability Reviews', 5.

<sup>87</sup> Steve Sedgwick, Personal Communication, February 14, 2020.

<sup>88</sup> Commonwealth, 'Our Public Service', 73.

<sup>89</sup> Cabinet Office Process Assurance Team (2012). 'Capability Reviews – How to Guide' (unpublished process document).9. With thanks to Peter Thomas for sharing this material.

<sup>90</sup> By way of a benchmark, we note that Tier 1 consulting firms generally use a 6-10 week 'sprint' to conduct a substantial review in an organisation. However, that period is preceded by extensive planning and preparation and is followed by consolidation and consideration of the recommendations. So, the whole project is frequently in the vicinity of four to five months.

## 4. AN ORGANISATIONAL CAPABILITY MODEL FOR AUSTRALIAN GOVERNMENTS

### 4.1 SUMMARY

This section sets out a proposed model of organisational capability to be used in Australian jurisdictions. In structure it most closely resembles the New Zealand model, but it also incorporates important ideas from the UK and Commonwealth models and our own ideas. Thus, the detail of the model differs in important ways from that in New Zealand. Each of those models has three levels of abstraction: domains of capability, elements within domains, and 'lead questions' relevant to each element. As explained below, we think that there is benefit in elucidating the elements of capability through a series of better practice statements.

The model of organisational capability we propose has a cascade of increasing levels of detail. From least to most detailed, they are as follows:

- Domains
- Elements
- Statements of better practice
- Questions.

The elements, statements and questions should be tailored to the specific circumstances of the relevant jurisdiction.

Overarching the detailed model of organisational capability, as already noted, is the Four-Year Excellence Horizon – a vision of how an agency ought to change over the medium-term.

The table below shows the five broad domains of organisational capability and the elements of each domain.

### Four-Year Excellence Horizon

Leadership, Culture, and Direction	Delivery for Citizens	Relationships	People Development	Resource and Risk Management
<ul style="list-style-type: none"> <li>• Purpose, vision and strategy</li> <li>• Values, culture and behaviour</li> <li>• Organisational governance</li> <li>• Review and evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Citizen focus</li> <li>• Policy and planning</li> <li>• Service delivery</li> <li>• Managing for results and value for money</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with ministers</li> <li>• Public sector contribution (pursuing whole of government or cross-cutting outcomes)</li> <li>• Engagement outside the public sector</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic workforce development</li> <li>• Management and development of people performance</li> <li>• Engagement with staff</li> </ul>	<ul style="list-style-type: none"> <li>• Asset management</li> <li>• Information and technology management</li> <li>• Financial management</li> <li>• Procurement and project management</li> <li>• Integrity and risk management</li> </ul>

There is, inevitably, some overlap of themes. Such overlap, however, has not been a barrier to the conduct of valuable reviews in other jurisdictions.

The statements of better practice are intended to capture in as short a form as possible the facets of capability that a highly capable organisation should possess. They have two primary uses, as:

- The basis of survey questions for agency staff, stakeholders and citizens as part of the preparatory phase of a review; and
- A guide for the review panel in undertaking one-on-one interviews, focus groups and workshops.

## 4.2 The structure of the model

In our view there is unlikely to be a perfect model of organisational capability. Each of the existing models involves some duplication across the different domains of capability. Reasonable minds can differ on the best structure to adopt. However, a lack of formal elegance or a lack of consensus is not a barrier to successful capability reviews. To foreshadow a point made in Part 5, the keys to success lie in the selection of reviewers, the relationships between the reviewers and the Commission and the agency under review, and the process adopted for conducting the reviews. Notably, the evaluation of the New Zealand PIF by the Victoria University of Wellington did not attend to the detail of the capability model – the focus was solely on the objectives, process and agency experience of PIF reviews.

As already noted, the UK model of organisational capability, most of which was copied by the Commonwealth, was the result of extensive consultations with senior civil servants.<sup>91</sup> The intention was to find language that would resonate with civil servants and with existing leadership and other professional development programs. Even with that guidance there were vigorous internal debates about the best model.<sup>92</sup> The model eventually adopted was based on the three domains of leadership, strategy and delivery. It had a particular focus on the role of the top management team.<sup>93</sup> The Sunningdale Institute evaluation criticised a lack of attention to corporate culture, the behaviour of middle management and front-line staff, and innovation capabilities.<sup>94</sup>

By contrast the commentary by Harmer and Podger on the original Commonwealth model of capability criticised its emphasis on leadership and innovation as concepts that are hard to define and measure. It recommended greater emphasis on the more measurable dimensions of capability such as the skills and experience of staff, Information and Communication Technology (ICT) capacity and utilisation, financial management (including budgeting and the purchasing of cost-effective outsourced services), and research and evaluation (including use of data and networking with external experts).<sup>95</sup>

The New Zealand model, which has seven domains of capability rather than three, responds to the latter part of this critique. It is broader in scope, with greater attention given to relationships and 'corporate' functions such as human resources and finance.<sup>96</sup>

We consider that the original emphasis on leadership and other less tangible aspects of organisational capability (such as organisational culture), even if difficult to define and measure, is vital and critical to a realistic assessment. At the same time, it is necessary to broaden the focus of the original capability model used in the UK and the Commonwealth to respond to the criticisms in the evaluations of those models.

We propose a model based on that used in New Zealand, that in our view reflects all of the most important dimensions of organisational capability.

In the other key models, each domain of capability comprises three to five elements, which describe its most important aspects. Each element in turn is associated with several lead questions. This cascade of increasing

<sup>91</sup> Panchamia and Thomas, 'Capability Reviews' 3.

<sup>92</sup> Peter Thomas, Personal communication, February 2020.

<sup>93</sup> Sunningdale, 'Take-off', 10.

<sup>94</sup> Sunningdale, 'Take-off', 9. This criticism was supported by the National Audit Office (UK) evaluation (25).

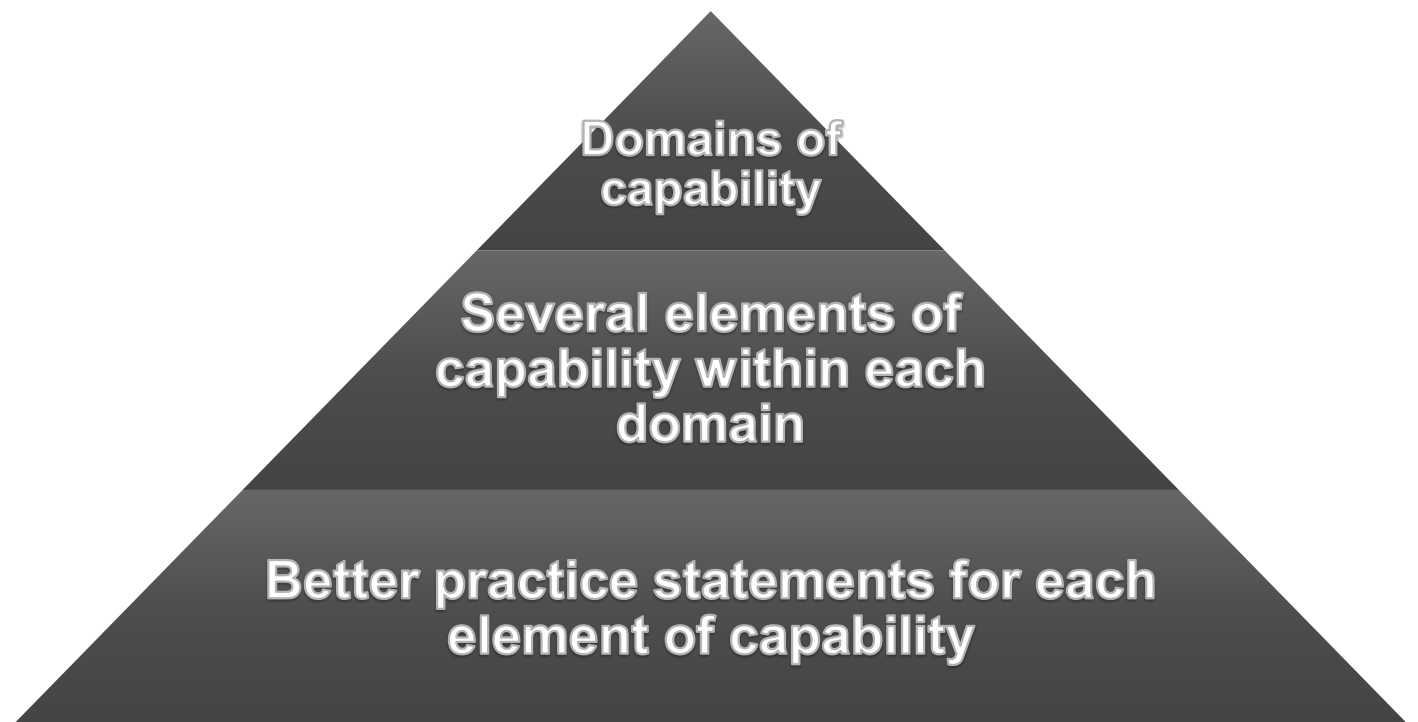
<sup>95</sup> Harmer and Podger, 'Capability Reviews', 8-9.

<sup>96</sup> The five domains are Leadership and Direction, Delivery for Customers and New Zealanders, Relationships, People Development, and Financial and Resource Management.

levels of detail is useful to those who will engage with the model of capability, whether as a review panel member, as part of a Commission review team, or as an agency employee. It allows for different 'lenses' on the model of capability.

Further, as already noted and consistently with assessments in other jurisdictions, we consider that it is appropriate to assign ratings at the level of elements. Ratings at the level of domains would 'roll up' too many different dimensions of capability and provide insufficient differentiation. Equally, ratings at the level of lead questions would be too numerous and would not provide a clear overall picture.

### **Proposed model of organisational capability**



### **Statements of better practice**

The structure of the model that we propose differs in one important respect from the models in the other jurisdictions. In elucidating elements of capability, statements of better practice replace the lead questions. Then each better practice statement is associated with one or more questions.

The introduction of better practice statements associated with each element of capability makes explicit the standards by which capability can be judged. In the UK and Commonwealth models, such standards are implicit in the lead questions used to guide the assessment of capability. In the New Zealand model, in addition to lead questions, there is a one paragraph description of each element of capability that describes the expected standards and a set of lines of enquiry. We view the statements as a normative description of *better* practice, rather than *best* practice, because the notion of what is 'best practice' in government is widely regarded as problematic.<sup>97</sup>

<sup>97</sup> Patton, Michael Quinn (2015). *Qualitative Research & Evaluation Methods: Integrating Theory and Practice*. 4<sup>th</sup> ed. Thousand Oaks, Calif.: SAGE Publications, 193.

The statements of better practice we propose are intended to capture in as short a form as possible the facets of capability that a highly capable public sector organisation should possess. By necessity, the statements describe key concepts rather than structures, systems, processes or documents (policies or procedures) that reflect those concepts.

This approach reflects the two uses to which the statements will be put in the conduct of reviews:

- The basis of survey questions for agency staff, stakeholders and citizens as part of the preparatory phase of a review; and
- A guide for the review panel in undertaking one-on-one interviews, focus groups and workshops.

In what follows there is a brief discussion of each domain and the elements thereof, to highlight what is different from existing models, and in particular the New Zealand model. In Appendix One, we provide a table for each domain of capability that shows how the elements and statements of better practice fit together.

The structure of the model does not include the longer descriptions of the different elements of capability found in the New Zealand model (in addition to New Zealand's lead questions). In the course of the fieldwork, the better practice statements, each of which is a short sentence, will be easier to use for review panel members.

### 4.3 Domains of organisational capability

The diagram in the summary above (section 4.1) shows our proposed five broad domains of organisational capability and the elements of each domain. It is based on the New Zealand PIF. However, the detail of each element should be designed to reflect the particular circumstances of each jurisdiction.

The discussion below highlights important dimensions of the content of each domain. There is, as might be expected and as already noted, considerable commonality in the models used by the UK, New Zealand and the Commonwealth. Accordingly, this discussion concentrates on notable differences from those models and the rationale for these differences. It deals not only with the elements of capability, but also the better practice statements associated with each element (as set out in Appendix One).

The term 'citizens' has been used throughout, primarily because of its breadth and connotations. A frequently used alternative, 'customers' – employed in the New Zealand and UK models – is often criticised as too narrow a conception of those who live in a democratic state.<sup>98</sup>

There is, inevitably, some overlap of themes in the elaboration of the various domains through the better practice statements. Collaboration, for example, is highlighted in the context of both the Leadership, Culture, and Direction domain and the Delivery for Citizens domain. Likewise, integrity is highlighted in the context of both Leadership, Culture, and Direction, and Resource and Risk Management. This overlap is by design. It serves to emphasise the importance of crucial enablers of high performance across domains. Moreover, such overlaps have not been a barrier to the conduct of valuable reviews in other jurisdictions.<sup>99</sup>

<sup>98</sup> See, for example, Aberbach, Joel D. & Christensen, Tom (2005). 'Citizens and Consumers: An NPM dilemma'. *Public Management Review*, 7(2), 225-246. Not all residents of an Australian jurisdiction will be citizens in the sense of holding Australian citizenship. New Zealand uses the phrase 'customers and New Zealanders' to encompass citizens strictly defined, foreign nationals, and taxpayers, all of whom may be 'payers' for New Zealand Govt policy and services'. However, we think it is desirable to emphasise the idea of the role of citizens - broadly construed as all those who are resident in the relevant jurisdiction and are thus concerned with the way it functions – in a democratic polity.

<sup>99</sup> See Sunningdale, 'Take-off', 9.

## Leadership, Culture and Direction

The four elements of the Leadership, Culture, and Direction domain are adapted from the New Zealand model, which provides a more comprehensive treatment of this area than either the UK or Commonwealth models.

Collaboration is emphasised in relation to the development of both strategy and culture. The UK and Commonwealth reviews found that a lack of teamwork and cohesion at senior levels of departments was a common problem.<sup>100</sup> Because one of the principal roles of a CEO and their executive team is to formulate and communicate strategy, this domain also closely associates leadership with strategy and direction.

Culture appears prominently in this domain. It is a consistent theme of contemporary analysis of organisational failure. Recent reviews finding serious failure and misconduct on the part of major private sector organisations – for example, the Longstaff Review of Cricket Australia,<sup>101</sup> and the Hayne Royal Commission<sup>102</sup> – show the damaging and pervasive effects of poor workplace cultures. They also make plain the influence of leadership upon culture. Organisational culture is also highlighted in the reports of state anti-corruption commissions in Australia.<sup>103</sup>

The most relevant components of leadership in the New Zealand Leadership and Governance element are here disaggregated. Integrity is highlighted in the better practice statements because of the relationship established in the literature between leadership behaviour and the ethical culture of an organisation.<sup>104</sup> Innovation is similarly highlighted as it is relevant not only to delivery for citizens, but also to corporate functions.

Review and evaluation are highlighted here, as in New Zealand, because of the importance of such practices to maximising the effectiveness and efficiency of all aspects of the operations of an agency. This emphasis is consistent with the Thodey Review's view about the need for a data-driven culture, and in particular the use of data to 'test hypotheses, prompt critical questions, measure the progress of outcomes and inform future spending decisions'.<sup>105</sup>

<sup>100</sup> Sunningdale, 'Take-off', 18; Harmer and Podger, 'Capability Reviews', 7.

<sup>101</sup> The Ethics Centre (2018). 'Australian Cricket: A Matter of Balance'. Report Commissioned by the Board of Cricket Australia. Sydney: Cricket Australia.

<sup>102</sup> Commonwealth of Australia (2019). 'Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry'. Canberra: Commonwealth of Australia.

<sup>103</sup> See Department of Education and Training (2016). 'Building Confidence in our Systems and Culture: Integrity Reform in the Department of Education and Training'. Melbourne: Victoria State Government (especially Section 3, 'People'); Department of Education and Training (2017). 'Working with Integrity: The Department of Education and Training's Second Report to the Independent Broad-based Anti-corruption Commission'. Melbourne: Victoria State Government (especially section 2, 'A culture of integrity underpins everything we do'); and recent joint communiqués from Australia's anti-corruption commissioners, which call on public sector leaders to 'do more to build strong cultures of integrity that resist corruption' (Griffin et al., 'United against corruption'), and speak of '[disrupting] the conditions enabling corruption', emphasising the need for public sector leaders to both 'build organisational cultures that embrace the opportunity to learn and improve' and 'cultivate environments where their staff genuinely feel safe to speak up' (Cowdroy AO QC, Dennis., The Hon John Roderick McKechnie QC., Alan MacSporran QC., The Hon Robert Redlich QC., The Hon Peter Hall QC., Kenneth Fleming QC., The Hon Bruce Lander QC., Maj. Gen. Greg Melick AO RFD SC., The Hon M. F. Adams QC (2019). 'Unmasking corruption in public institutions', Joint communiqué from Australia's anti-corruption Commissioners', <https://www.ccc.wa.gov.au/sites/default/files/Joint%20Communique%20from%20Australia%27s%20anti-corruption%20Commissioners.pdf> .(Accessed 15 February 2020).

<sup>104</sup> See, for example, Bass, Bernard M. & Bruce J. Avolio (1993), 'Transformational Leadership and Organisation Culture', *Public Administration Quarterly*, 17(1), 112-121; Carlson, Dawn S. & Pamela L. Perrew (1995), 'Institutionalization of organizational ethics through transformational leadership'. *Journal of Business Ethics*, 14, 829-838; and, more recently, Kuenzi, Maribeth, David M. Mayer & Rebecca L Greenbaum (2020), 'Creating an ethical organizational environment: The relationship between ethical leadership, ethical organizational climate, and unethical behavior'. *Personnel Psychology*, 73(1), 43-71.

<sup>105</sup> Commonwealth, 'Our Public Service', 175.

Certain concepts in this domain, notably innovation and evaluation, appear also in a more specific context in other domains. Such repetition reflects the importance we place upon those concepts.

### **Delivery for Citizens**

The Delivery for Citizens domain is similar to the New Zealand 'Delivery for Customers and New Zealanders' domain. Reference to 'citizens' rather than 'customers' reflects our view about the fundamental importance of citizens as the object of public policy.

Services can be usefully categorised as being delivered to, for, or with people.<sup>106</sup> Accordingly, the better practice statements for the first element, Citizen Focus, highlight participatory processes and two-way communication. The needs of Aboriginal and Torres Strait Islander Peoples are highlighted here because of their unique status and circumstances.

Policy and planning are important dimensions of service delivery that are not emphasised in the New Zealand domain of 'Delivery for Customers and New Zealanders' (although frequently policy advice is covered under Delivery of Core Business, and planning is covered in the 'Operating Model' element of that domain). In particular, high quality and detailed policy work is essential to determine the best ways for an agency to meet political priorities and the agency's strategic objectives. Our consultations suggest that the UK/Commonwealth model of capability does not give sufficient weight to the policy capacity of an agency.

The service delivery element highlights the particular challenges of regional and remote service delivery (including governance issues), as well as the importance of working with other entities in relation to outsourced services. The statements for this element also highlight the importance of review and innovation in delivery models, something that was found to be lacking in the original Commonwealth reviews.<sup>107</sup>

Managing for results and value for money is a crucial dimension to test how well the agency marshals its resources to deliver on government priorities and targets. As noted above, the only significant difference between the UK and Commonwealth models of capability was the omission by the Commonwealth of the UK emphasis on efficiency and value for money. We heard that this difference reflected a deliberate choice by the Commonwealth to avoid any suggestion that a capability review might be a backdoor mechanism to impose budget cuts. While that choice is understandable in the context of a constant search by the Department of Finance for savings, our view is that efficiency and value for money are essential dimensions of organisational capability, and that the risk of including these dimensions can be sufficiently managed through clear statements by the Commission – and if necessary, by the first minister - about the purpose of the reviews. It should be made clear that the reviews are unrelated to, and will not lead to, productivity or efficiency dividends or the like.

### **Relationships**

The Relationships domain highlights the importance of collaboration in the broadest sense. A single domain focused on relationships reflects the desirability of examining an agency's relationships generally, as well as the extent to which it works well with others for various purposes (notably development of strategy and delivery models). The Thodey Review devoted a whole chapter to the importance of partnering for greater impact.<sup>108</sup> It considered relationships with ministers, states and territories, the private and not-for-profit sectors, communities, academia and individuals. Moreover, different lines of enquiry about the same core issue are likely to generate distinct insights and increase the reliability of the evidence obtained.

<sup>106</sup> Mulgan, Geoff (2012). 'Government with the People: The Outlines of a Relational State', in *The Relational State: How Recognising the Importance of Human Relationships Could Revolutionise the Role of the State*, edited by Graeme Cooke and Rick Muir, 20-34. London: Institute for Public Policy Research.

<sup>107</sup> Harmer and Podger, 'Capability Reviews', 8.

<sup>108</sup> Commonwealth, 'Our Public Service', 115-141 (Chapter 4: 'Partner for Greater Impact').

Our Relationships domain reflects the New Zealand domain of the same name, but with additional elements focused on engagement outside the public sector.<sup>109</sup> While service delivery relationships are relevant to the 'Delivery for Citizens' domain, and there is thus some overlap, our consultations indicate the need to highlight relationships outside the public sector. Such external bodies appreciate the opportunity to provide feedback on their interactions with a particular agency. One of the common capability gaps found by the UK reviews was 'engagement with delivery partners, customers and other external stakeholders';<sup>110</sup> initial evaluation of the Commonwealth reviews found that 'few departments work effectively with key external stakeholders to develop and implement solutions to emerging problems'.<sup>111</sup>

The significance of relationships with other levels of government (including federal-state funding and service delivery relationships) is recognised in the third element. The federalism dimension is not relevant in New Zealand and appears not to have been emphasised in the UK or the Commonwealth. As the Thodey Review indicated, intergovernmental relations are of considerable importance to producing good outcomes for citizens in Australia.

### People Development

The People Development domain follows closely the New Zealand model, while emphasising Human Resources (HR) strategy more strongly.

Diversity is included in the strategic workforce development element, as it is better treated as an aspect of attraction and retention rather than engagement with existing staff; the primary challenge lies in recruitment. There is a range of reasons for seeking a diverse workforce, such as inclusiveness and legitimacy (derived from a public sector that is broadly representative of the population), equity and economic opportunity, merit, and the need for different population groups to have a voice within agencies on policy and service delivery issues. Talent management is an important issue covered here, also in the strategic workforce development element. Management of employee relations, which is covered here in the engagement with staff element, draws from the New Zealand model.<sup>112</sup>

### Resource and Risk Management

This domain reflects the New Zealand domain of the same name but with greater emphasis placed on both integrity and risk management to reflect the current Australian context.

In relation to financial management, we note that a common gap found in both the UK and Commonwealth reviews was priority-setting and resource allocation, based on the links between strategic objectives and specific projects, programs, roles and outcomes.<sup>113</sup> The proposed statements deal separately with planning and resource allocation, and with financial integrity issues.

Compared to New Zealand, greater emphasis is placed here on procurement. In our view, procurement should be considered as a distinct element of capability. That is because of the importance of strategic procurement as a mechanism to promote value for money, and the specific integrity risks it raises. This view also reflects the findings of several anti-corruption commissions in the states.<sup>114</sup>

<sup>109</sup> Note however that the New Zealand PIF considers how agencies engage with a range of external stakeholders in the collaboration and partnerships element under the 'Delivery for Customers and New Zealanders' domain – this covers other government agencies, local government agencies, NGO's, private sector entities, customer representatives, and Maori authorities relevant to the agency's work.

<sup>110</sup> Sunningdale, 'Take-off', 18.

<sup>111</sup> Harmer and Podger, 'Capability Reviews', 8.

<sup>112</sup> 'How well does the agency manage its employee relations?' Lead Question 25 (New Zealand Government, 'Core Guide 1', 4).

<sup>113</sup> Sunningdale, 'Take-off', 18; Harmer and Podger, 'Capability Reviews', 8.

<sup>114</sup> See, for example, Independent Commission Against Corruption NSW (2018). 'Corruption and Integrity in the NSW Public Sector: an assessment of current trends and events'. Sydney: NSW State Government, 50-61.





## 5. PROCESS FOR CONDUCTING AND ACTING ON THE REVIEWS

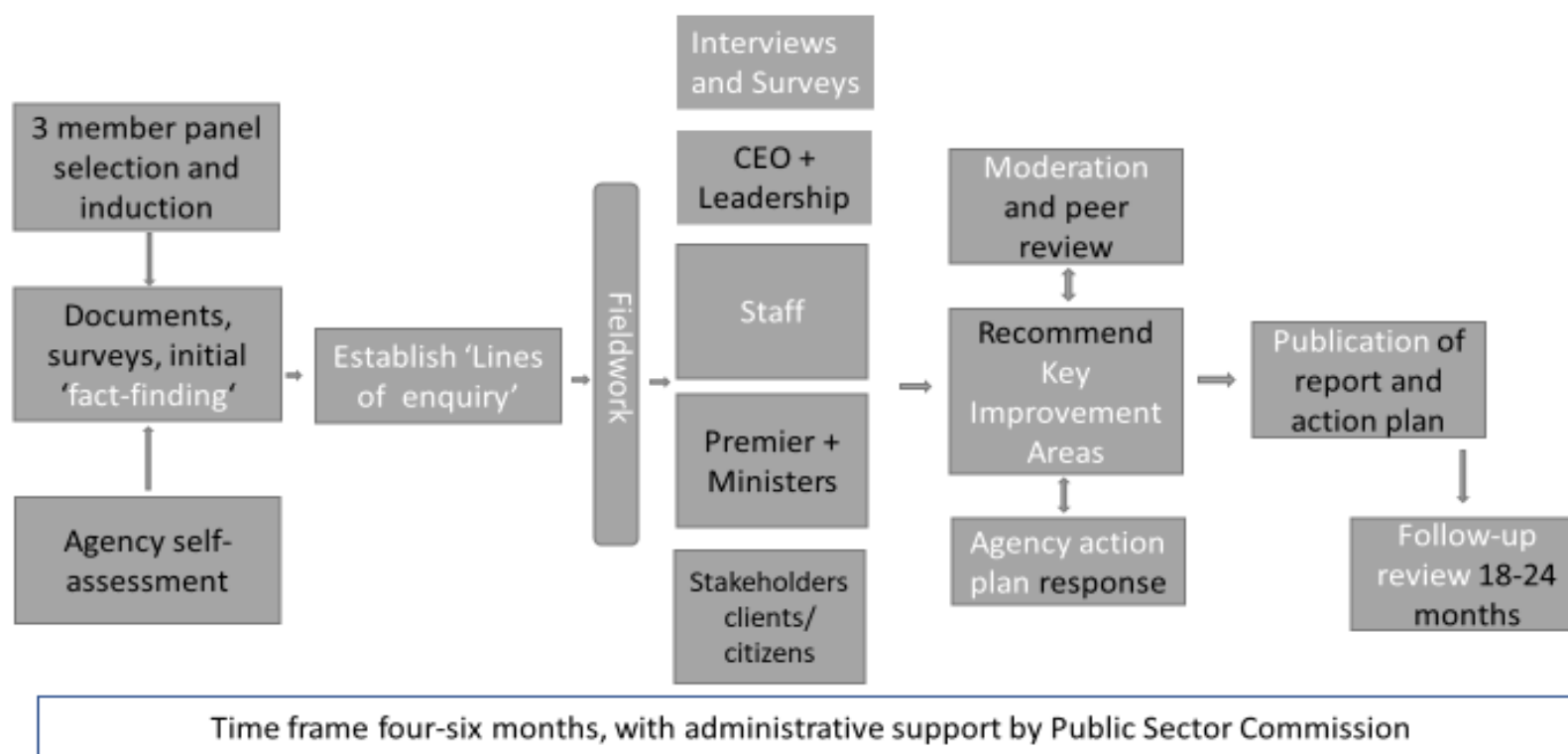
### 5.1 Summary

This Part sets out in more detail our proposed process for conducting and acting on reviews. The process is also summarised in figure 3 (overleaf). In particular, this Part answers questions as to how a capability review would be carried out. These include:

1. **How to plan a program of reviews?** We advocate conducting different agency reviews in a series of tranches. This approach accommodates government priorities, allows for focus on certain areas or complementary agencies, manages potential reputation risk, takes account of chief executive turnover, and minimises 'review fatigue'.
2. **How to select reviewers?** We propose that the Commissioner select panel members to support the credibility and independence of reviews. This decision would reflect consultation with the first minister, line minister, Head of the First Minister's Department, and agency CEO; ideally the Commissioner would be supported by an independent HR advisor. Once selected, reviewers would receive an induction.
3. **How to structure the review?** Initial 'fact-finding' by the panel using documentary review, interviews, orientation visits, workshops, and surveys, would be informed and supplemented by agency self-assessment. The panel would be supported by a Commission review team to manage the process.
4. **How to develop conclusions and recommendations?** From the initial 'fact-finding', not more than six 'key lines of enquiry' looking at key areas of concern or opportunity would be generated. To pursue these, the panel would conduct '*fieldwork*' including interviews with minister(s), members of the agency's senior team, other staff, central agencies, citizens, and stakeholders. Conclusions and recommendations on key areas of concern - and opportunities for improvement - would then be developed.
5. **How to report results?** Results would report conclusions by reference to a four-year excellence horizon looking at medium-term preparedness, and detailed analysis of each domain and element of capability. Key recommendations would focus on 5-6 areas where opportunities exist for substantial improvement. A final copy of the report with ratings would be provided to the agency CEO.
6. **How to ensure comparability of results?** *Moderation* (peer review) would be carried out by a panel chaired by the Commissioner, to allow comparability across agencies and improve utility of findings for ministers and central agencies.
7. **How to ensure improvements in response to a review?** An agency would prepare an *action plan* to make the necessary improvements. Both the report and the action plan would be published. A follow-up review after 18-24 months would occur to examine progress and to ensure improvements are being made. Follow-up reviews would also allow for evolution of the review process.

The following expands on our rationale for these proposals.

Figure 3. Agency Capability Review Process



## 5.2 General principles

Those with substantial experience of capability reviews in other jurisdictions have underlined the great importance of the process. Several of the people consulted said that the process is the most important aspect of a review model – more important than the particular model of capability.<sup>115</sup> We agree with that observation. Put simply, a well-designed and implemented process will make good any deficiency of the particular capability model used, but the converse is not the case.

Each element of the process should support the intention that the agency under review – and especially its CEO – is or becomes intrinsically motivated to improve its own capability.

### The critical importance of relationship management

The most critical influence on the success or otherwise of a review will be the interaction between the review panel, the Commission, and the agency concerned. A review is not simply a technocratic exercise. For the agency CEO and their senior executive team, it is a personal and emotional experience that can elicit strong reactions.<sup>116</sup> Success depends on the ability to generate what one expert called ‘grown up, adult, challenging’ conversations with the agency CEO, and a report that provides insights on a handful of issues that really matter to the capability of the agency. The conditions required include the creation of what another expert called an environment of ‘psychological safety’ for the review team. Thus, specification of the process cannot guarantee success in delivering what the UK Cabinet Office called a ‘holy trinity’: ‘a clear and evidenced diagnosis, the key actions that address that diagnosis, and a willingness, desire and drive in the department to deliver the improvements required.’<sup>117</sup>

### The nature of capability assessment

As the UK National Audit Office has noted, ‘organisational assessment is not an exact science’.<sup>118</sup> Consequently, the assessment should be broadly-based. It should reflect the full diversity of opinion amongst those citizens and other organisations that interact with the agency.

The importance of consistency and comparability of assessments – that is, fairness and reliability - has been highlighted already. Likewise, the process should also be consistent across agencies. Nevertheless, each agency has different characteristics and different imperatives. Thus, there is a need for some flexibility in how the process and products are presented, while maintaining a core of consistency.<sup>119</sup>

<sup>115</sup> For example, the head of the UK Prime Minister’s Delivery Unit with responsibility for the original design of the capability review program, said in 2007 that the reviewers ‘have the experience and the personal talent to get to the right issues, that are at the heart of the right things, within a process, as long as the process is fundamentally in the right direction.’: Transcript of Panel Discussion at National School of Government, Sunningdale, 5 October 2007, p. 9, provided by Peter Thomas. The UK used an extensive process to design the program, involving 100 interviews and seven to eight workshop sessions with senior officials involved in delivery, culminating in a two day event for 90 senior civil servants and a number of experts and outsiders with a perspective on reform and capability: Panchamia and Thomas, 3.

<sup>116</sup> Peter Thomas, Personal communication, February 2020.

<sup>117</sup> Process Assurance Team, ‘How to Guide’, 6.

<sup>118</sup> National Audit Office (UK), ‘Cabinet Office Assessment’, 20.

<sup>119</sup> Process Assurance Team, ‘How to Guide’, 6.

### Evaluation – process and outcomes

The process used by a Commission, and the outcomes of the reviews, should be subject to continuous evaluation.<sup>120</sup> Evaluation of the New Zealand model has found that its adaptation over time has been a major reason for its longevity, especially compared to the original UK and Commonwealth models.<sup>121</sup>

At the end of each review, the agency and the external review team should participate in a debriefing process. The agency should be asked to provide feedback on the review panel, the review process, and the structure of the final report. Similarly, the Commission should conduct a debrief with the review panel on what worked well during the review process and what could be done differently to improve the process. The Commission should nominate a senior person as the custodian of the review process with responsibility for its continuing development and improvement. Ideally, they would be supported by several other staff to ensure the retention of corporate memory.

An evaluation of the impact of the review program should be established from the outset, drawing on appropriate evaluative practice and academic expertise. As noted in Part 2 of this report, there are very limited data in other relevant jurisdictions on the impact of capability reviews. The potential of such an important idea ought to be tested thoroughly in practice over a number of years.

## 5.3 Planning a program of reviews

The overall timing of the reviews, and the sequencing of them, are important considerations for the principal audiences of the reviews - government as a whole, ministers, and the individual CEOs of the agencies involved.<sup>122</sup> It is preferable to examine the capability of agencies early in the life of a government, before views become entrenched.

Other jurisdictions have found it useful to conduct and publish reviews in a series of tranches, although New Zealand no longer does so. We support that approach. It facilitates consistency and comparison of assessments across the several agencies included within each tranche, and ensures that when the results are published there is not an undue external focus on a particular agency. Perhaps at a later date when the process is better established and has become 'business as usual', publication could occur upon completion of each individual report.

The composition of each tranche, and the order of reviews generally should take account of a number of considerations:

- The need to support delivery of government priorities;<sup>123</sup>
- The benefits of examining together the agencies involved in major service systems or pursuing similar policy objectives. Such clusters could include: human services; economic development; transport and land use planning; and justice and community protection;
- The length of tenure of the agency CEO. The experience of New Zealand at least is that CEOs who are relatively new in the role are generally much more amenable to a review. A review conducted some 12-18 months after commencement in the role would be ideal. However, that will not always be possible in a cycle of reviews of all departments and major agencies within, say, a three-year timeframe;

<sup>120</sup> In the model of capability proposed in Appendix 1, the last element of the first domain of capability highlights the importance of review and evaluation.

<sup>121</sup> Victoria University Wellington, 'Independent Review', 36.

<sup>122</sup> The Thodey Review notes the importance of sequencing but does not adequately consider the role of ministers and government as a whole.

<sup>123</sup> Commonwealth, 'Our Public Service', 72.

- The perceptions of an agency's performance and risk profile. Agencies that are perceived to be relatively poor performers or face major risks should ideally be reviewed early in the program;
- The benefits of the right mix of agencies in a tranche in order to enhance comparability of assessment. This could involve grouping of agencies with similar business models,<sup>124</sup> or a variety of perceptions of current performance; and
- Planned reviews by the Auditor-General or other external, independent review bodies, to avoid 'review fatigue'.

The Commissioner, as the person responsible for the review program, should ultimately determine the appropriate timing of an individual review, but significant engagement with the first minister, line minister, Head of the First Minister's Department, and the agency CEO is essential.<sup>125</sup> Senior people with experience of reviews in other jurisdictions stressed to us the importance of early engagement by the Commissioner with the head of government, line minister and CEO to build the authorising environment, manage expectations, avoid surprises, and elicit any problems as early as possible. In addition, given the importance of cross-cutting issues, we suggest that it is desirable to consult with ministers and CEOs in portfolios that have major linkages to the agency under review. Such engagement should be sustained throughout the conduct of the reviews.

To assist the Commissioner in making those decisions, the Commission should undertake initial research on *all agencies* to be reviewed, to understand the context of each agency. Such context should include the recent history of the agency's leadership, the tenure of the current CEO of the agency, the mandate given to them upon appointment, the core functions of the agency, the key external relationships of the agency, and the priorities and major performance challenges for the agency. To gain a thorough understanding of the relevant agencies, the research should include both desktop analysis of material available to the Commission<sup>126</sup> and discussions with the central agencies.

## 5.4 Choosing the review panel

The efficacy of reviews is, as already observed, highly dependent on the review panel.<sup>127</sup> Thus the choice of reviewers is critical. The UK engaged a very senior HR practitioner on a full-time basis to find the right reviewers, having regard to the particular context of an agency (including the personal style of the CEO). We support that approach. Using a senior HR practitioner would assist in matching the different personalities and experiences of reviewers to the context of the agency and the style of its CEO.

In New Zealand, there has been some concern about a potential scarcity of lead reviewers, and a suggestion of the need for greater attention to recruitment, training and development of reviewers to ensure a sufficient number of such people.<sup>128</sup> This issue might be salient especially for less populous jurisdictions, and jurisdictions with a large number of agencies to be reviewed. However, we do not think that scarcity of lead reviewers is likely to be a significant problem if the field of candidates is appropriately defined. In addition to previous heads of department

<sup>124</sup> Sunningdale, 'Take-off', 26.

<sup>125</sup> The Thodey Review suggests that the APS Commissioner should agree with agency heads on the timing of reviews (71). This proposal does not reflect the fact that the first minister and other ministers have a real interest in the reviews. The UK emphasised the importance of gaining ministers' interest and support: see Panchamia and Thomas, 'Capability Review', 3-4 and Sunningdale, 'Take-off', 15, 28.

<sup>126</sup> The research should examine all material held by the Commission or otherwise publicly available and relevant to the agency, including government priorities, annual reports, budget papers, performance audit reports, and Hansard searches.

<sup>127</sup> Allan and Eppel, 'Holding on tight', 8. Victoria University Wellington, 'Independent Review' noted that 'The sourcing, training and ongoing relationship between [the State Services Commission] and its Reviewers is so important that it could be an entirely separate evaluation' (23).

<sup>128</sup> Victoria University Wellington, 'Independent Review', iv, v, 36.

from the relevant jurisdiction, it would be desirable to consider former public sector CEOs from other jurisdictions, especially those that have experience in similar geographic and demographic challenges.

Establishing a panel of reviewers, as New Zealand has done and as the Commonwealth did originally, and then using reviewers to undertake more than one review, has a number of benefits. It enhances the rigour and consistency of ratings, encourages sharing of knowledge and ideas for improving the framework, ensures availability of suitable reviewers, and saves time. Moreover, if several Australian jurisdictions were to undertake a program of capability reviews, there might also be benefits in a co-operative inter-jurisdictional arrangement to establish a larger panel upon which to draw. This kind of arrangement would reduce the search and transaction costs in choosing appropriate reviewers.

The Commissioner should determine the composition of the review panel. In order to understand fully the perspectives of key stakeholders, it is desirable to consult with the first minister, line minister, Head of the First Minister's Department, and agency CEO. However, in the end the Commissioner's view must prevail in order to maintain the rigour of the review. A minister might wish for 'tame' reviewers to obviate potential criticism, but such an approach would undermine the integrity of the review. Similarly, the views of the agency CEO are important, but should not be given too much influence. In the early days of the New Zealand reviews, the relevant agency CEO was allowed considerable sway in the choice of a Lead Reviewer. This practice led to undesirable gaming behaviour on the part of some CEOs.<sup>129</sup>

The composition of the panel will need to balance a range of considerations, ensuring in particular both an appropriate degree of challenge to the agency and deep understanding of the agency's context.

## 5.5 Agency personnel involved in the review

The CEO of an agency is arguably the most important person in the conduct of a review. A review will not achieve its objective without extensive engagement in, and (ultimately) support for the review from the CEO. Accordingly, they should be the sponsor of the review within the agency.

The CEO's role is crucial for another reason: the quality of relationships between ministers and their departments is crucial to the effectiveness of the latter. That is why the recommended model of organisational capability places considerable emphasis on such relationships. Consistent with that thinking, throughout the conduct of a review, the CEO should engage with their minister to ensure that the minister's concerns are understood and that the minister is aware of the progress of the review.<sup>130</sup>

An agency's senior executive team will be responsible for implementing the action plan that responds to a review. Accordingly, strong engagement between the review team (review panel and Commission review team) and the agency's senior executive is also important, from the initiation of a review, through the conduct of the review, to the development of the action plan.

In the UK, some agencies also established a reference group of about a dozen people at various levels of seniority, who could be used as a sounding board during the review and a task force following the review. We would encourage agencies to establish such a group. Most importantly, a reference group would assist the CEO to implement their action plan fully.

There is an obvious requirement for a project manager within the agency and supporting staff to manage the involvement of the agency in the review. This team should identify and gather relevant information, identify relevant participants in interviews and workshops, manage logistics, and act as a liaison between the review team and the

<sup>129</sup> Allen and Eppel, 'Holding on tight', 9. In addition, there were problems with lack of comparability of ratings. These problems reportedly no longer exist: 8.

<sup>130</sup> Sunningdale, 'Take-off', 28-29.

CEO. It should also be the repository of emerging findings from the review that are required to begin development of an action plan.

## 5.6 Commission personnel involved in the review

The Commissioner has a critical role to play in the review process, both as the person responsible for the review program, and the pivotal figure in managing the relationships with the first minister, ministers, review panel, and agency CEOs. In particular, the Commissioner will need to ensure the robustness of the reviews and manage the fact that such reviews can be ‘a hard-hitting, personal and emotional experience’<sup>131</sup> for a CEO. The Commissioner will also need to build and maintain a ‘coalition for change’ throughout the program of reviews.<sup>132</sup> It is notable that in the UK, the Cabinet Secretary personally managed some of the difficult conversations and chaired the moderation panel and the follow-up stocktakes.<sup>133</sup>

Given the number of agencies likely to be involved in the review program, and the Commissioner’s other responsibilities, this role could impose a substantial burden on the Commissioner. We think that it would be desirable for the Commissioner to be assisted by another very senior person in fulfilling these responsibilities – ideally an ex-head of department. Again, to draw on the UK experience, the head of the Prime Minister’s Delivery Unit used his previous relationships to develop ‘challenging but supportive’ relationships with permanent secretaries and directors-general.<sup>134</sup>

As noted above, each review panel requires the support of a Commission review team to manage the review and support the review panel (for example through gathering and analysing relevant information, conducting workshops and interviews, and drafting the report). The composition of the Commission review team is a matter for judgment, having regard to the general principles outlined in section 5.2. However, we note the strength of the UK model, in which senior people developed and became custodians of a way of working that emphasised the quality of engagement and collaboration. Their interaction with the review team was ‘quite a subtle alchemy’: far from being a ‘secretariat’, they worked as equals with the review team.<sup>135</sup> Another important consideration, derived from both the UK and the Commonwealth experience, is that secondees can bring knowledge of the relevant agency, an additional third party viewpoint, or additional skills useful to the review (for example in data and systems, governance, or policy).<sup>136</sup>

## 5.7 Formal initiation of the review

Once all of the relevant personnel have been determined – review panel, agency review team, and Commission review team – and the timeline determined, it is desirable for the Commissioner to initiate a review through a discussion with the agency CEO (confirmed by letter). These communications should canvass the review process and schedule, the review panel and Commission review team, the role of the CEO, and the likely fiscal contribution required from the agency.

## 5.8 Induction of review panel

The induction and training of the review panel is also important. This would act to ensure both the quality of the reviews and their comparability across organisations, including the application of consistent methods and standards across reviews. A detailed induction for all members of the review panel should be developed, including

<sup>131</sup> Panchamia and Thomas, ‘Capability Reviews’, 4. See also Sunningdale, ‘Take-off’, 12.

<sup>132</sup> Panchamia and Thomas, ‘Capability Reviews’, 4.

<sup>133</sup> Panchamia and Thomas, ‘Capability Reviews’, 4-5.

<sup>134</sup> Panchamia and Thomas, ‘Capability Reviews’, 5.

<sup>135</sup> Peter Thomas, Personal Communication, February 2021.

<sup>136</sup> The Commonwealth found the involvement of at least one secondee from another agency to be useful: Harmer and Podger, ‘Capability Reviews’, 7.



information on the context and objectives of the reviews, the capability model, the maturity model (rating scale) and the moderation process. Time spent in developing a common understanding of the rating scale in particular will minimise disagreements about ratings at the end of the review. This induction should be the very first activity for a review panel member who has not previously had that role.

It is notable that the UK devoted considerable effort to establishing relationships between the review panel, and the Cabinet Office review team, and the agency under review.<sup>137</sup> We recommend a similar approach.

The lead reviewer should meet initially with the agency CEO. Greater benefit from the review will be obtained if significant personal trust is established between the lead reviewer and the CEO. New Zealand and Commonwealth experience indicates that a CEO's leadership can be enhanced if a coaching relationship is established with the lead reviewer, with an appropriate mix of challenge and support. For this reason, the proposed fieldwork process (section 5.11) also emphasises the personal relationship between the lead reviewer and the agency CEO. The initial discussion should canvass the recent history of the organisation (especially positive changes already made),<sup>138</sup> potential benefits of the review for the agency, and the review process.

A similar initial meeting with all members of the agency's senior executive team should build credibility and trust in order to lay the foundation for them to 'take ownership' of the review and the change program to flow from it. In New Zealand it has been said that the quality of the strategic dialogue that takes place between the review panel and the CEO and their executive team is 'the jewel at the heart of the PIF'.<sup>139</sup>

## 5.9 Preparation for the review ('fact-finding')

All jurisdictions with substantial experience in capability reviews have used 'fact-finding' or a 'pre-fieldwork review' to establish the parameters for the fieldwork by the review panel. We recommend a two-part approach to preparation:

- Documentary review, interviews, orientation visits, workshops, and surveys; and
- An agency self-assessment.

The purpose of this preparatory phase of the process is to understand the agency, including its context, the challenges it faces,<sup>140</sup> and how it is perceived by others. From this first phase, key lines of enquiry to be explored in the fieldwork phase can be developed. In order to keep timeframes as tight as possible, the self-assessment should occur concurrently with, or even in advance of, the other preparatory activities.

It is desirable to include:

- review of confidential documents provided by an agency, and other documents in the public realm that shed light on the capability of the agency;
- interviews with the agency's minister(s) and individual senior executive team members. These interviews should canvass current and future expectations of the agency, as well as views on capability. They are also an opportunity to answer questions about the nature of the review and the process to be followed and if necessary, resolve any differences of expectation about the review, to maximise support for it;

<sup>137</sup> Process Assurance Team, 'How to Guide', 10.

<sup>138</sup> Victoria University Wellington, 'Independent Review', 28.

<sup>139</sup> Victoria University Wellington, 'Independent Review', 28.

<sup>140</sup> The Thodey Review noted that the original Commonwealth reviews 'had limited acknowledgement of challenges in the APS' current or future operating environment and did not fully address the readiness of agencies to meet emerging needs' (Commonwealth, 'Our Public Service', 70).

- interviews with other ministers and CEOs of other agencies whose responsibilities are closely related to the agency under review, to emphasise cross-agency linkages;
- orientation visits to speak with regional managers, front-line staff, citizens and delivery partners;
- workshops with agency staff and stakeholders (departments, delivery partners, and other external stakeholders);
- a survey of external stakeholders, focused on their views of the agency's challenges and future needs, and relevant dimensions of the capability model; such a survey will help to reinforce within the agency the importance of external relationships; and
- a survey of citizens served by the agency, focused on their experience of the services provided by the agency; such a survey will help to embed in the agency a focus on citizens.<sup>141</sup>

The extent and nature of these activities will depend on available time and resources which could vary somewhat between agencies. However, given the challenges of regional (and in some jurisdictions remote) service delivery, we recommend that the Commission include a number of discussions outside major metropolitan areas. Moreover, we see considerable utility in conducting surveys of key populations.

In relation to seeking citizen views, one expert pointed out that citizens' experience can sometimes be influenced by government decisions, especially on funding.<sup>142</sup> Careful phrasing of survey questions and use of focus groups should ensure that the views provided reflect only on the agency under review and not on policy decisions by ministers.

Given the importance of the senior executive team and their direct reports in implementing change, it is important that the initial interactions between the review team and such staff emphasise the focus of the review on organisational improvement. In New Zealand it has been found that many staff below CEO level believe that the primary purpose of the PIF review is organisational accountability rather than organisational improvement.<sup>143</sup> Such a view should be corrected as early as possible.

The interviews, orientation visits, and workshops should involve one or more of the review panel and the Commission review team, following the UK model. This approach ensures that the review panel (and especially the lead reviewer) gains first-hand experience of the agency's operations and relationships in developing their views on key lines of enquiry. The fact-finding phase is especially important for review panel members who have little or no experience of working in government: it builds their effectiveness as reviewers, as well as enhancing their trust and credibility with the agency.

## 5.10 Agency self-assessment

A self-assessment is recommended in Part 3 of this report. In New Zealand it has been said that the success of a review appears to reflect the investment of senior management time in the self-assessment.<sup>144</sup>

The self-assessment process should balance the need to minimise the administrative burden on the relevant agency and the need of the external review team for comprehensive information about the agency. It should be managed by the Commission review team.

<sup>141</sup> The National Audit Office (UK) criticised the lack of direct consultation of service users by UK review and stocktake teams to find out citizens' views on departments' delivery of services (27).

<sup>142</sup> Jeff Harmer, Personal Communication, 23 January 2020.

<sup>143</sup> Victoria University Wellington, 'Independent Review', 30. Such staff felt 'marked, graded and compared rather than motivated to lift their strategic goals and be more ambitious in what they are trying to change and achieve at the outcome level'.

<sup>144</sup> Victoria University Wellington, 'Independent Review', 23, 25-6.

New Zealand guidance on conducting an ‘agency self-review’ in advance of an external ‘agency review’ canvasses a range of approaches to undertaking the former, including desktop analysis, interviews, staff focus groups, workshops with agency leaders and other staff, and staff surveys.<sup>145</sup> Agencies have considerable flexibility in deciding their preferred method(s).

The extent of a self-assessment should be determined considering the other preparatory activities (see section 5.9) and the fieldwork (see section 5.12). We agree with the New Zealand guidance that a self-assessment should be a ‘short process’.<sup>146</sup> We also propose that the agency self-assessment include two key components:

- a strategic reflection from the agency’s senior leadership team – what are the contextual challenges for the agency now and in the future, what does it need to contribute for the jurisdiction, and what aspects of the agency’s capability are most in need of improvement? and;
- a staff survey (recommended also by the Thodey Review).<sup>147</sup> The survey should be co-designed by the agency review team and the Commission review team: it is desirable to avoid duplication of questions that in substance have been answered by a recent employee engagement survey or similar. The results of the survey should be stratified so as to reveal differences of perception between different parts and different levels of the organisation. It is also important to distinguish the view of the senior leadership team and the broader executive cadre from that of the organisation more generally: the different perspectives will provide insight into aspects of the senior leadership capability of the organisation.

This proposal mirrors the two-part approach to the external review, incorporating a four-year excellence horizon as well as detailed analysis of the domains and elements of organisational capability.

With these two components, and the other preparatory work outlined in section 5.9, we suggest that additional interviews, focus groups and workshops are not necessary. The advantage of undertaking more extensive activities – including citizen and stakeholder surveys - in the ‘fact-finding’ phase, rather than as part of the self-assessment, is that the Commission can ensure the rigour of those activities.

A report for the Commission and the review panel should be developed, based on agency documentation and the two components discussed above; the links between judgements and evidence should be as clear as possible. The report should include the senior executive team’s ratings of the agency. These will enable the review panel to understand how the agency’s senior leadership team sees the agency.

The agency should begin work on an action plan (see section 5.13 below) considering the self-assessment and other preparatory work for the review.

A modified self-assessment survey could also be useful in tracking progress for future improvement, after the initial panel review.

## 5.11 Generating key lines of enquiry

The Commission review team should analyse all of the preparatory data to develop preliminary views about the agency’s capability. A software tool to record all the evidence and assist with analysis of it is highly desirable. The analysis should identify strengths and weaknesses, to inform areas of focus for the external review – what are called in the UK and New Zealand ‘key lines of enquiry’. Preliminary ratings would be a useful way to summarise this analysis, which is intended to focus the work of the review panel during the fieldwork stage. These should be

<sup>145</sup> New Zealand Government (2015). ‘Performance Improvement Framework, Core Guide 2: Undertaking a Performance Improvement Framework (PIF) Self-review’. Wellington: New Zealand Government, 8.

<sup>146</sup> New Zealand Government, Performance Improvement Framework, 9-10.

<sup>147</sup> Commonwealth, ‘Our Public Service’, 71. See also the Irish model: O’Riordan, Joanna (2011). ‘Organisational Capacity in the Irish Civil Service: An Examination of the Organisation Review Programme’. Dublin: Institute of Public Administration, 12.

assigned to each *element* of the capability model, *not* at the level of each of the five domains, to ensure a nuanced picture. One and possibly two workshops involving all of the review panel and the Commission review team will be necessary. While the Commission review team's analysis is the obvious starting point, it should not constrain the review panel's collective determination of the key lines of enquiry.

The number of key lines of enquiry should be strictly limited to maintain focus and provide sufficient depth to the review – characteristics that should also be reflected in the report of the review. They should represent the big, 'real and critical' issues where improvement must be focused if the agency is to be in a position to make a step change in performance.<sup>148</sup> The UK used no more than six,<sup>149</sup> which is a sensible guideline. Attention should also be paid to the sufficiency of evidence to assess the agency against the capability model.

## 5.12 Fieldwork

Fieldwork is undertaken by the review panel, supported by the Commission review team over a period of at least two weeks. It should:

- explore and confirm or otherwise the key lines of enquiry. These should be kept under review and adjusted if early fieldwork indicates additional or different areas of focus;
- gather the evidence required to complete the assessment and rating of the agency's capability; and
- gather information to be used in action planning.

This phase should commence with an initial meeting with CEO/senior executive team, to present the review panel's overarching view of the preparatory data, and the proposed key lines of enquiry. The strategic reflection from the agency's self-assessment should be revisited, based on the findings of the preparatory analysis.

Interviews should be held with key internal and external actors, based on the key lines of enquiry. At minimum, the interviews should include:

- minister(s);
- relevant members of the agency's senior team;
- central agencies;
- citizens; and
- external stakeholders – discussions with selected organisations at CEO level.

Interviews, workshops and focus groups should also be conducted as appropriate with staff at various levels of the agency. Evaluation of the UK and original Commonwealth reviews highlighted the importance of assessing the capabilities of middle management and frontline staff.<sup>150</sup>

The lead reviewer should maintain regular communication with the agency CEO. Such conversations have several purposes: to continue building trust, to test emerging findings, and to help the CEO absorb those findings. There is merit in the practice adopted in the UK and New Zealand, involving a meeting between the review panel and the agency CEO and their senior executive team at the end of the fieldwork, in which the review panel provides its overarching views about strengths and areas for development.<sup>151</sup>

<sup>148</sup> Process Assurance Team, 'How to Guide', 24.

<sup>149</sup> Process Assurance Team, 'How to Guide', 24.

<sup>150</sup> Harmer and Podger, 'Capability Reviews', 9.

<sup>151</sup> In New Zealand a similar debrief is provided in confidence to the central agencies' officials.

### 5.13 Reporting (including moderation of assessment)

The Commission review team should collate all the evidence in structured working papers. It should assist the review panel to prepare a draft report of findings.<sup>152</sup> The structure of the report should reflect the two parts of the assessment – a four-year excellence horizon, and detailed analysis of each domain and element of capability.

The report should be characterised by:

- A description of the wider context of the review for the agency, including the recent history of change and improvement in the agency and expected future challenges;
- A strong evidence base, including internal and external evidence, and benchmarking analysis;
- A focus on the key areas of capability that really matter – in other words, those areas that require significant improvement in order to achieve a substantial lift in the agency's performance. We suggest that there should be no more than four to five key areas;<sup>153</sup> and
- Recommendations that are strategic, practical and appropriately challenging.

Not surprisingly, the challenge lies in finding a way to write the report that is both true to the findings of the review panel, and publishable to the world. One expert described this activity as 'putting a soft wrapper around a hard centre'.<sup>154</sup> All of the key jurisdictions have faced significant pressure from agency CEOs to produce a report that makes the agency look better than the review panel thought – pressure that can increase if the CEOs know each other's scores. The issue of a CEO's legacy can loom large.

The lead reviewer should provide a first draft (without ratings) to the agency CEO to ensure accuracy and seek comment. In addition, the Commissioner should provide the first draft to the relevant line minister for comment.

The review panel, with the assistance of the Commission review team, should finalise its proposed ratings (on current capability and readiness to meet future challenges) and recommendations. Experience from the UK, New Zealand and the Commonwealth suggests that a divergence of view between the review panel and the Commission review team is unlikely, because they will have worked closely together over a substantial period of time in assessing the capability of the agency. If a divergence exists, the original Commonwealth practice should be followed and the lead reviewer's perspective should prevail, to reflect the independence of the review panel.

#### Moderation

The Commission should then arrange for peer review (moderation) of the draft report and proposed ratings, to ensure consistency of assessment across agencies. The design of the moderation process involves a number of important elements.

The UK used a formal moderation panel to consider each tranche of reports, chaired by the Cabinet Secretary, and including senior external reviewers, as well as a senior person from within the Cabinet Office. Each chair of a review panel for a particular department had an opportunity to give a short presentation on their findings. Then the moderation panel deliberated in their absence to consider whether the assessment (including the evidence) for each department painted a compelling picture, whether the assessments were consistent and, finally, whether any amendment to an assessment was required to ensure consistency across the reviews. We understand that the

<sup>152</sup> In New Zealand the lead reviewers draft much of the report and especially the Four-Year Excellence Horizon. That practice has been found generally to produce a document that is more powerful than if composed by officials: Helen Moody, Personal Communication, November 2020.

<sup>153</sup> It was suggested to us that the original Commonwealth reports lacked sufficient focus.

<sup>154</sup> Peter Thomas, Personal Communication, February 2020.

Cabinet Secretary rarely sought to change the assessment of a particular review panel and that in the end the review panel members were all content with the scores and draft reports.

New Zealand also uses a formal approach to peer review of findings and ratings, using three independent Lead Reviewers (one of whom acts as chair). The peer review is attended by the two lead reviewers, a deputy commissioner, and officials from the three central agencies. It is intended first to ensure that the level of medium-term ambition set by the lead reviewers for the agency's performance improvement and outcomes, and the ratings, are appropriate, given the findings and future context. Secondly, it considers what an appropriate response from the agency would be and what support for the agency might be needed from the central agencies. Thirdly, it is used to ensure the quality and internal consistency of the report. On occasions lead reviewers are asked to consider revisions to their report to deal with issues or concerns about the commentary or ratings.<sup>155</sup>

There is however a significant difference between the UK and New Zealand approaches. New Zealand does not try to achieve comparability of ratings between agencies. The reasons are both practical and theoretical. NZ rarely has more than one agency in fieldwork of the same type and size at the same time and so there is no direct comparison available. In addition, the assessment of how well-placed the agency is to deliver on the performance challenge described in the four-year excellence horizon *depends on the level of ambition* of that horizon. Differing levels of ambition make it difficult to do direct comparison of ratings across agencies. Thus, well-performing agencies with significant, new external challenges ahead might well be assessed as needing development to deliver on their performance challenge. Nevertheless, the peer review aims to treat the agency fairly and achieve consistency in ratings compared to other agencies doing similar work and reviewed in somewhat comparable circumstances.<sup>156</sup>

The New Zealand peer review discussion is conceived primarily as an opportunity for the lead reviewers to test their findings, judgments and guidance in the draft report. At its conclusion, either the ratings and report are confirmed, or there is agreement on how the report should be revised. The final report and ratings represent the judgment of the lead reviewers and not of the Commission; while the Commissioner can ask for changes to, or not accept, the final report, that is rare.<sup>157</sup> The review panel chair(s) may from time to time, after discussion with the Deputy Commissioner of the SSC, provide a report on common themes across reviews or lessons that have general application (for discussion of this important function, see section 5.15 below).

The Commonwealth used a more informal approach to try to ensure comparability of ratings across agencies. A discussion involving the Commissioner, the review panel and other senior APSC people 'put reviewers through their paces'. This process developed in form and maturity over time. It helped to deal with the concerns of the secretary of the department under review. The final ratings depended on the judgment of the review panel.

We recommend that a formal, structured and transparent approach to moderation be adopted.<sup>158</sup> In addition, we think that a real effort should be made to achieve consistency and comparability in the ratings across different agencies. Without those principles, the utility of a review program to the first minister, other ministers, and central agencies would be much reduced. Moreover, as it is proposed that reports, including ratings, be published, a serious question of fairness would arise without consistency and comparability. It is true that the 'gap' between current capability and the capability likely to be required in the medium-term will depend in part on the external context for each agency, but that 'gap' should be assessed as objectively as possible: it should not depend on the subjective level of ambition of an agency or the subjective judgement of the review panel as to what level of 'stretch' is appropriate.

<sup>155</sup> Helen Moody, Personal Communication, February 2021.

<sup>156</sup> State Services Commission (New Zealand), *Performance Improvement Framework (PIF) Peer Review Panel: Terms of Reference*, provided in confidence to ANZSOG..

<sup>157</sup> State Services Commission, *Performance Improvement Framework (PIF)*.

<sup>158</sup> Any kind of forced distribution – whether in reality or perception - would be inimical to this objective.

We propose that the moderation panel should be chaired by the Commissioner, because ultimately the Commissioner bears responsibility for the products of the reviews. The inclusion of lead reviewers or equivalent who have not been involved in the review(s) under consideration will help the Commissioner to bring as much objectivity as possible to the task. For the same reason, consideration of multiple reviews within a tranche at the same time is desirable, and the relevant senior staff of the Commission should also be involved. The aim of the process should be to arrive at a consensus between the moderation panel and the review panel, and the experience of the UK and the Commonwealth suggests that such a goal is achievable. Finally, we note that any feedback from the agency CEO that has not been incorporated into the report should be provided to the moderation panel.

### **Finalisation of the report**

A final meeting between the review panel and the agency CEO should present the review panel's findings and ratings. The ratings should not come as a surprise to the CEO, given the interactions between the lead reviewer and the CEO during the course of the review. Nevertheless, experience indicates that some CEOs will vigorously challenge ratings that are less than highly complementary. Where such a scenario is anticipated, it might be desirable for the Commissioner to chair the meeting, as the view of the Commission should prevail.<sup>159</sup>

A similar meeting should then occur between the review panel and the agency's senior executive team. Potentially this meeting could be preceded by discussions with small groups of the senior executive team, to help move them along the change curve.<sup>160</sup>

A final copy of the report with ratings should be provided to the agency CEO.

## **5.14 Agency action plan**

The agency head, in consultation with the Commissioner, the Commission review team, the review panel, and the agency executive team, should be required to develop an action plan to make the necessary improvements, in accordance with the final report. The plan should be approved by the Commissioner. Once approved, the plan should form part of the CEO's individual performance agreement with the individual who is in practice responsible for employment of the agency head (such as the first minister).

An action plan should translate insights from the discussions during a review into a series of detailed steps to improve organisational performance. It should not be an opportunity for an agency to debate the review's assessment.<sup>161</sup> Nor should it be an exercise in 'ticking boxes'. Performance measures should be included. As in the UK and the Commonwealth, we recommend that the review panel and the Commission ensure the quality of the agency's action plan – that it responds adequately to the findings and recommendations of the review, that it is fit for purpose, and that the actions meet the 'SMART' criteria (specific, measurable, achievable, realistic, and timely).<sup>162</sup> Thus the review panel and the Commission should be part of the action planning process, and the Commission should assist the agency with that process. For example, it is desirable that the review panel meet with the agency's executive team to review a draft action plan.<sup>163</sup> It is possible that the Commission might need to apply some pressure to an agency to achieve a high quality action plan.<sup>164</sup>

<sup>159</sup> In the UK, the cabinet secretary, Gus O'Donnell, personally chaired some of the more difficult or important meetings (Panchamia and Thomas, 'Capability Reviews', 4-5).

<sup>160</sup> Process Assurance Team, 'How to Guide', 27.

<sup>161</sup> O'Riordan, 'Organisational Capacity', 7.

<sup>162</sup> See also O'Riordan, 'Organisational Capacity', 8.

<sup>163</sup> Process Assurance Team, 'How to Guide', 16-22 provides detail on the UK process of action planning prior to the publication of the report of a review.

<sup>164</sup> Steve Sedgwick, Personal Communication, November 2020.

Action planning should begin while fact finding is underway, well before the field work commences.<sup>165</sup> That will help to encourage the agency's executive team to focus more on solutions and less on contesting the review panel's assessment.

As in the Commonwealth originally, agency CEOs should be held personally accountable for acting on the findings and recommendations of the review – but not for the findings themselves. This distinction is crucial to maximise support for the process from agency CEOs, and to maximise the impact of the reviews. In the UK, capability reviews could be 'career ending', because they were used by the Cabinet Secretary as part of the performance appraisals of permanent secretaries.<sup>166</sup> We do not recommend that approach: the focus should be on encouraging strategic change, and accountability for past performance should not be emphasised.<sup>167</sup>

The action plan should contain a mechanism for the agency CEO and their employer to monitor its implementation, including an appropriate reporting schedule, as part of the CEO's formal performance agreement. The action plan should also contain provision for modification if necessary, in response to changing circumstances; any modification should be agreed between the CEO and the Commissioner. There should be consequences for CEOs and other senior staff whose agencies are not making sufficient progress and are not closely engaged with the Commissioner to rectify that situation.<sup>168</sup>

We note that New Zealand found action plans to be problematic. The plans focused on actions rather than results and outcomes and placed an extra burden for agencies in compliance reporting and for the Commission in monitoring progress. Instead, the agency under review is now required to prepare a statement in response, that describes its commitment to the performance challenge set by the lead reviewers. It identifies the agency's priorities for performance improvement, with specific intermediate milestones over 18 months to 2 years. The lead reviewers will confirm whether the agency's statement is commensurate with the performance challenge or seek a stronger statement. The statement becomes part of the agency's organisational strategy and plan and the CEO is responsible for giving effect to it, with specific accountabilities included in the CEO's performance expectations. Central agencies agree a statement in support of the agency's commitment.<sup>169</sup>

In our view the development and implementation of an appropriate action plan that is incorporated into an agency CEO's personal performance plan will produce sharper accountability for improvement in capability than if the response to a review is incorporated into an agency's strategic plan. We recognise that action plans can be problematic if they are seen as an exercise in 'ticking boxes' or are unduly detailed. However, both of these potential difficulties can be avoided; the UK and the Commonwealth appear not to have faced such difficulties.

## 5.15 Publication of report and action plan

There have been two different approaches to publication of reports. The UK, the Commonwealth and initially New Zealand published reports in tranches. New Zealand then adopted a different approach some years ago, after it encountered practical difficulties, including delays in publication that diminished the value of some reviews (for example, because findings were well out of date) and increased the risk of adverse publicity or unauthorised disclosure. New Zealand now publishes each review as soon as practicable after it is completed.

The arguments in favour of publication in tranches are twofold. First, reports of the reviews are likely to attract media and public comment. In New Zealand such commentary has been limited and not problematic, either for

<sup>165</sup> Process Assurance Team, 'How to Guide'; the Thodey Review says that the 'first step' in capability reviews is for agencies to undertake a self-assessment and develop their own plans to build capability (Commonwealth, *Our Public Service*, 71).

<sup>166</sup> Process Assurance Team, 'How to Guide', 28. Sir Gus O'Donnell was quoted as saying: 'I will use the reviews to expose the improvements needed, get the right people into the right senior posts to deliver the improvements, ensure they get the support they need, reward success and take tough action in response to failure': Panchamia and Thomas, 5.

<sup>167</sup> Victoria University Wellington, 'Independent Review'.

<sup>168</sup> Sunningdale, 'Take-off', 26.

<sup>169</sup> Helen Moody, Personal Communication, November 2020.



tranches or when published individually.<sup>170</sup> However, the experience in the UK and the Commonwealth was different, reflecting a different political culture.<sup>171</sup> If reports are published in tranches, there is less prospect of agencies being singled out unfairly. Secondly, publication of reports in tranches reflects the approach to concurrent reviews and moderation in the UK and the Commonwealth, an approach that we favour.

Consistently with the practice of the UK and the Commonwealth, we consider that publication of reports of reviews should occur in tranches, to seek to avoid undue focus on any one report. Further, because reports are likely to attract media attention, it is important that relevant ministers understand the content of the reports and are prepared for possible media questions. The minister responsible for the agency in question and the first minister have the largest interests. Given the importance of cross-cutting policy issues, it is desirable that ministers with responsibilities that are related to the agency in question are also aware of the review findings. The Commissioner should therefore discuss each tranche with the first minister and agree on an appropriate process for briefing ministers prior to publication. We propose that each tranche should be considered by cabinet or a cabinet committee before publication. A cabinet committee appears to be the most practical option. It should be made clear to ministers that the reports are products of the Commission and the review panel, and accordingly ministers are not at liberty to change the content of a report.

A draft of the action plan should be presented to ministers together with the final report. We suggest that ministers should be able to seek changes to an action plan if they are not satisfied with it.

The Commissioner should arrange for the publication of the reports, including a summary of the action plan, following consideration by ministers. The reports should be clearly branded as Commission products. For reasons noted above, the first minister should determine the timing of publication.

The Thodey Review recommended that the results of the staff survey undertaken as part of the agency self-assessment should be published to foster transparency.<sup>172</sup> We consider that such publication is in the public interest. Public officials are trustees of citizens' resources for the benefit of those citizens.<sup>173</sup> The extent to which appointed officials collectively consider that they are capable stewards of public resources is just as important to public accountability as the perspective of the review panel.

## 5.16 Follow-through

As the 2007 evaluation of the UK reviews noted, 'Successful change programs take years to succeed, but can fail very quickly.'<sup>174</sup> Follow through within agencies is therefore vital.

In addition to the performance management mechanism described in section 5.14 above, follow-up reviews are important to maximise the impact of the review program.<sup>175</sup> The UK had an extensive follow-up regime ('stocktakes') - at 3, 6, 12 and 24 months after the initial review. Nevertheless, 'the high-octane process' that accompanied the initial review faded significantly as the follow through stage was reached.<sup>176</sup> To maintain momentum for change, the Sunningdale Institute evaluation recommended a follow-up review between 18 and 24 months after the initial review, for all departments, using the original review panel where possible.<sup>177</sup> New Zealand

<sup>170</sup> Helen Moody, Personal Communication, November 2020.

<sup>171</sup> In the United Kingdom, for instance, the negative outcome of a capability review of a particular department ended up in a famous quotation in the House of Commons (Peter Thomas, personal communication). For an example of negative press coverage in Australia, see Towell, Noel (2014), 'Veterans' Affairs' failures exposed in Australian Public Service Commission Capability Review'. *Canberra Times*, 8 December 2014.

<sup>172</sup> Commonwealth, 'Our Public Service', 71.

<sup>173</sup> Finn, 'Public Trust Public Accountability', 224 and *passim*.

<sup>174</sup> Sunningdale, 'Take-off', 24.

<sup>175</sup> O'Riordan, 'Organisational Capacity', 8.

<sup>176</sup> Sunningdale, 'Take-off', 12.

<sup>177</sup> Sunningdale, 'Take-off', 25.

uses follow-up reviews, generally after 18-24 months, to consider progress against the four-year excellence horizon and ascertain whether any changes are needed to it. While a follow-up review is dependent on the consent of the agency CEO,<sup>178</sup> many agencies have had follow-up reviews.<sup>179</sup> The Thodey Review criticised the absence in the original Commonwealth program of follow-up reviews to track improvements in organisational effectiveness, and accordingly suggested a follow-up review after three years.<sup>180</sup>

We consider that a follow-up review should be conducted as a matter of course between 18 and 24 months after the initial review. It should assess all elements of capability but focus on the areas for action highlighted by the initial review. This review should be scheduled in advance as part of the initial review cycle. The review panel would ideally combine at least one previous reviewer and one new reviewer, to create a balance between continuity and a fresh perspective. The composition of the review panel should also be determined with the highest priority areas in mind. All relevant reporting from the monitoring period should be made available. A modified self-assessment survey could inform this process.

The Commission also has a vital role to play in supporting agencies to implement their change agendas successfully. In part this work should involve identifying areas of high capability in various agencies and facilitating the transfer of successful ideas to other agencies that are struggling in those areas.<sup>181</sup> The Thodey Review proposed that each agency should be a leader in (at least) one key dimension of capability and seek to build broader capability in that area.<sup>182</sup> This is a sound model, but we think that central leadership from the Commission will be required to make it work well.

Beyond the capture and transfer of knowledge, additional support from the Commission will also be necessary to assist agencies to build capability. Such support will include work to identify and remedy common weaknesses and manage talent across the public sector.<sup>183</sup>

We also think that there is merit in the idea of a group of CEOs being appointed by the Commissioner to promote capability improvement across the public sector.<sup>184</sup> That would be a concrete manifestation of the responsibility of agency heads to be stewards of the public sector. Ideally the public sector itself should sustain the momentum for change. Yet 'it is a fact of life that change programs run out of steam eventually'.<sup>185</sup> This group could also seek to find an answer to the question of how to build a self-sustaining culture of improvement ('dynamic capabilities').<sup>186</sup>

<sup>178</sup> Victoria University Wellington, 'Independent Review', p.ix. See also New Zealand Government, 'Core Guide 1', 29, which notes that a follow-up review occurs where it is agreed between the central agency chief executives and the CEO of the relevant agency.

<sup>179</sup> Allen and Eppel, 'Holding on tight', 6.

<sup>180</sup> Commonwealth, 'Our Public Service', 70, 73.

<sup>181</sup> Sunningdale, 'Take-off', 26.

<sup>182</sup> Commonwealth, 'Our Public Service', 71.

<sup>183</sup> O'Riordan, 'Organisational Capacity', 8; Sunningdale, 'Take-off', 30-31.

<sup>184</sup> See Sunningdale, 'Take-off', 26-27.

<sup>185</sup> Sunningdale, 'Take-off', 31.

<sup>186</sup> Sunningdale, 'Take-off', 32-37; the author refers to Teece, David J., Pisano, Gary and Shuen, Amy (2007), 'Dynamic Capabilities and Strategic Management'. *Strategic Management Journal*, 18 (7), 509-533.

## 6. CONCLUSION

Those consulted for this research, most of whom had personal experience of at least one capability review, were unanimous in their view that a program of reviews has considerable potential to improve the performance of public sector agencies. We have come to the same view.

Whether that potential is fulfilled depends on a number of conditions:

- A political authorising environment that provides strong support yet is supportive of the independence and integrity of the reviews;
- review panels that bring the right combination of skills, experience, insight, detachment, and empathy;
- a review process that is comprehensive and engages the agency's senior executive team as fully as possible;
- analysis that is rigorous and focuses on the highest priorities for improvement in the relevant agency;
- findings and ratings that are fair and comparable across agencies;
- an action plan to enhance priority capabilities that contains the necessary, detailed and measurable steps;
- a performance management mechanism to provide a strong incentive for a CEO to implement the action plan; and systemic support to determine common needs, assist agencies to build capability, and evaluate the results of the reviews.

The proposals set out in this paper, drawing on what we consider to be the most desirable features of capability review frameworks used over the last 15 years in the UK, New Zealand and the Commonwealth, aim to meet those conditions. But we recognise that our proposals need to be tested and refined over time in response to evaluations of review programs.

We hope that more Australian jurisdictions will pursue a program of capability reviews to help their agencies to enhance the welfare of their citizens.

## APPENDIX ONE: A MODEL OF ORGANISATIONAL CAPABILITY: DOMAINS, ELEMENTS AND BETTER PRACTICE STATEMENTS

### Domain 1: Leadership, Culture and Direction

Element	Better Practice Statement
<b>1.1 Purpose, Vision and Strategy<sup>187</sup></b>	<p>Based on government priorities, the agency develops its purpose, vision, and strategy through effective use of evidence, and collaboration across and outside government.</p> <p>The agency's purpose, vision, and strategy are focussed on outcomes for all citizens.</p> <p>The agency's purpose, vision, and strategy are responsive to external changes.</p> <p>The agency's purpose, vision, and strategy are consistent with ministerial priorities and supported by central agencies, staff, and delivery partners.</p> <p>The leaders of the agency clearly communicate their purpose, vision, and strategy to staff, delivery partners, and the general public.</p>
<b>1.2 Values, Culture and Behaviour</b>	<p>The agency's values and desired culture are developed collaboratively with its staff, and widely shared and practised by them.</p> <p>The agency's leaders demonstrate and promote integrity.</p> <p>Agency staff demonstrate and promote integrity.</p> <p>The agency's leaders demonstrate and promote the desired agency culture.</p> <p>The agency demonstrates continuous improvement to achieve better results for citizens.<sup>188</sup></p> <p>The agency consistently innovates to improve performance.</p> <p>The agency manages access to information and makes and communicates decisions transparently (subject to legal and ethical requirements).</p>

<sup>187</sup> In relation to implementation of organisational strategy, see Domain 2. In relation to evaluation of the effectiveness of organisational strategy, see the next element and also the Service Delivery element in Domain 2.

<sup>188</sup> The language of citizens (including clients and customers) is preferred for a range of reasons (e.g., the situation of people subject to the coercive power of the state). As it is used in this document, it refers to all residents of the relevant jurisdiction.

Element	Better Practice Statement
<b>1.3 Organisational Governance</b>	<p>The agency's structure organisational design is both effective and efficient for achieving its objectives.</p> <p>The leadership's collective decision-making processes are evidence based, efficient, effective, and respond to diverse objectives and priorities.</p> <p>[For statutory authorities only: the board's decision-making is evidence based, efficient, effective, and responds to diverse objectives and priorities.]</p> <p>The agency manages change effectively and inclusively, while maintaining organisational performance.</p>
<b>1.4 Review and Evaluation</b>	<p>The agency uses internal and external evaluation and review across the whole organisation to help implement its strategic objectives</p>

## Domain 2: Delivery for Citizens<sup>189</sup>

Element	Better Practice Statement
<b>2.1 Citizen Focus</b>	<p>The agency engages with all citizens in a respectful and participatory process to understand their needs and expectations.</p> <p>The agency engages with Aboriginal and Torres Strait Islander peoples in a culturally appropriate way in order to understand their needs and expectations.</p> <p>The agency employs co-design and co-production with citizens to design and deliver services that meet their needs and expectations.</p> <p>The agency's service design is effective and responds to citizens' needs.</p> <p>The agency seeks citizen views about the goals, performance, and outcomes of services and acts on the feedback.</p>
<b>2.2 Policy and Planning</b>	<p>The agency's policy advice is creative and forward-looking.</p> <p>The agency plans and manages its services to achieve its strategic objectives and ministerial priorities.</p>
<b>2.3 Service Delivery</b>	<p>The agency works with partners and providers to facilitate effective, efficient, and culturally appropriate service delivery, including in regional [and remote areas]<sup>190</sup>.</p> <p>The agency and its partners work to continuously innovate and improve service delivery.</p> <p>The agency regularly evaluates the effectiveness and efficiency of its delivery models and acts on the findings to improve future performance.</p>
<b>2.4 Managing for Results and Value for Money</b>	<p>The agency manages for results in a way that is efficient, effective, and provides value for money.</p> <p>The agency manages external service providers to deliver high performance.</p>

<sup>189</sup> Central agencies' interactions with citizens are necessarily far more limited than those of line agencies. Accordingly, the assessment of central agencies' focus on citizens should reflect those different expectations. Nevertheless, central agencies should endeavour to seek opportunities for direct understanding of citizens' needs and expectations, including through joint work with line agencies. See also Domain 3 regarding relationships between agencies within the public sector.

<sup>190</sup> Not all jurisdictions have remote areas.

Element	Better Practice Statement
	<p>The agency manages unsatisfactory performance of external service providers effectively.</p> <p>The agency has high quality and timely performance information, to manage risk and improve the performance of all service delivery (whether provided by staff or under contract).</p>

### Domain 3: Relationships

Element	Better Practice Statement
<b>3.1 Engagement with Ministers</b>	<p>The relationship between the agency and the minister/s and their office/s is characterised by clarity of roles, openness, trust, and respect.</p> <p>The agency's advice is impartial and evidence-based, and responsive to the priorities of the minister/s.<sup>191</sup></p>
<b>3.2 Contribution to the Public Sector (pursuing whole of government or cross-cutting outcomes)</b>	<p>The agency builds enduring and collaborative relationships with other public agencies to deliver on the government's priority outcomes.</p> <p>The relationships between the agency and other parts of the public sector are characterised by openness, trust, and respect.</p>
<b>3.3 Engagement Outside the Public Sector</b>	<p>The agency builds enduring and collaborative relationships with non-government organisations (whether private or not for profit) to deliver on the government's priority outcomes.</p> <p>The agency collaborates respectfully and openly with other jurisdictions ([other] states, local government, [the Commonwealth,]<sup>192</sup> and international actors) for the benefit of citizens.</p>

<sup>191</sup> An agency's relationship with other members of parliament, parliament, and the media should be considered as aspects of the agency's relationship with the minister/s.

<sup>192</sup> For the Commonwealth, omit the words in parentheses.



## Domain 4: People Development

Element	Better Practice Statement
<b>4.1 Strategic Workforce Development</b>	<p>The agency effectively implements a strategic workforce development plan to attract and retain a highly ethical, highly competent, and diverse workforce.</p> <p>The agency has a workforce that is selected on merit and broadly representative of the population.</p> <p>The agency manages its workforce in an agile and flexible way to respond to a complex and changing environment.</p> <p>Leadership and capability development - that incorporates mindset, expertise and behaviour - is designed to meet current and future challenges.</p> <p>Development programs produce demonstrable benefits and foster a culture of learning, flexibility, and mobility across the public sector.</p> <p>The agency takes a sector wide approach to talent identification and development which is aligned with its performance management system.</p>
<b>4.2 Management and Development of People Performance</b>	<p>The performance of individuals and teams is managed in a way that is aligned with the strategic priorities of the agency, promotes high performance, and is fair and transparent.</p> <p>Poor and/or unethical performance is promptly and effectively remedied.</p> <p>The agency effectively monitors and reports on staff integrity.</p>
<b>4.3 Engagement with Staff</b>	<p>Staff engagement is measured regularly, the results are publicly available, and action is taken to improve based on the results.</p> <p>The agency ensures that all staff have a sense of belonging and inclusion in the workplace and capitalises on their unique experiences.</p> <p>The agency takes a systemic approach to staff safety, encompassing wellbeing, physical safety, mental health, and motivating staff to raise issues in the workplace.</p> <p>The agency engages constructively with its employees and employee representative groups on issues of importance to them, to prevent and where necessary manage conflict.</p>

## Domain 5: Resource and Risk Management

Element	Better Practice Statement
<b>5.1 Asset Management (Physical and ICT assets)</b>	<p>The agency utilises its assets effectively and efficiently to deliver services and drive performance improvement, in accordance with its strategic objectives and government priorities.</p> <p>The agency records, monitors, and maintains its assets effectively.</p> <p>The agency appropriately prioritises asset upgrades or replacements</p>
<b>5.2 Information and Technology Management</b>	<p>The agency collects, manages and uses information as a strategic asset to innovate and improve performance.</p> <p>The agency manages information ethically, including to maintain privacy.</p> <p>The agency shares information across government to collaborate and improve outcomes for all citizens.</p> <p>The agency shares information appropriately beyond government to collaborate and improve outcomes for all citizens.</p> <p>The agency uses information and communication technology effectively to achieve its strategic objectives.</p>
<b>5.3 Financial Management</b>	<p>The agency's financial planning serves the effective and efficient delivery of the agency's strategic objectives.</p> <p>Financial resources are allocated to maximise the quality and efficiency of services.</p> <p>The agency is transparent and accountable in its use of public funds.</p> <p>The agency has effective financial controls (including an effective and transparent financial system to record and report transactions) to guard against and detect misconduct.</p>
<b>5.4 Procurement and Project Management</b>	<p>Procurement is guided by the agency's strategic objectives and provides value for money in pursuing beneficial community outcomes.</p> <p>The agency's key contracts are governed and managed effectively to protect the public interest.</p>

Element	Better Practice Statement
<b>5.5 Integrity and Risk Management</b>	<p>The agency has an effective risk management system to identify, mitigate, and manage risks across the agency and its relationships, and this system is regularly reviewed for effectiveness.</p> <p>The agency's integrity controls, and internal audit functions are independently governed, well communicated, accessible to staff and contractors, and effective.</p>

## APPENDIX TWO: CAPABILITY REVIEW ASSESSMENT SCALE

RATING	DESCRIPTION
<b>DEVELOPING WELL</b>	<ul style="list-style-type: none"> <li>• Excellent current capability</li> <li>• Strategic and systematic approach to forecasting future capability challenges and responding accordingly</li> <li>• Plans and undertakes development to meet future and changing needs and conditions</li> <li>• Adopts better practice from elsewhere where appropriate</li> <li>• Continues to learn from other organisations</li> <li>• Focusses on continuously improving performance</li> </ul>
<b>DEVELOPING</b>	<ul style="list-style-type: none"> <li>• Good current capability, with future capability gaps identified</li> <li>• Demonstrates activities to improve in areas of current and future capability gaps, and is well placed to continue improving</li> <li>• Some adoption of better practice from elsewhere, where appropriate</li> <li>• Some learning from other organisations</li> <li>• Some focus on continuously improving performance</li> </ul>
<b>NEEDS DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>• Has gaps in current and future capability.</li> <li>• Some current and future capability gaps not clearly identified and little forecasting of future capability challenges</li> <li>• Identified weaknesses not systematically addressed, and limited or no plans to rectify them</li> <li>• Adoption of better practice from elsewhere were appropriate needs to be improved</li> <li>• Considerably greater focus on learning and continual improvement needed</li> </ul>
<b>NEEDS CONSIDERABLE DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>• Serious weaknesses in capability for current and future delivery which require urgent attention from senior leadership</li> <li>• Little or no awareness of capability gaps with little or no action underway to remedy them</li> <li>• Little or no evidence of learning from better practice to improve agency performance</li> <li>• Little or no evidence of a focus on improving agency performance</li> </ul>

## REFERENCES

- Advisory Group on Reform of Australian Government Administration (2010). 'Ahead of the Game: Blueprint for the Reform of Australian Government Administration'. Canberra: Commonwealth of Australia.
- Allen, Barbara & Elizabeth Eppel (2019). 'Holding on tight – NPM and the New Zealand performance improvement framework'. *Australian Journal of Public Administration*, 79(2), 171-186.
- Amit, Raphael, & Paul Shoemaker (1993). 'Strategic Assets and Organizational Rent'. *Strategic Management Journal*, 14 (1): 33-46.
- ANZSOG Work Based Project Research Study (2019). 'Using capability reviews to support public sector performance improvement in Western Australia' (unpublished paper).
- Aberbach, Joel D. & Tom Christensen (2005). 'Citizens and Consumers: An NPM dilemma'. *Public Management Review*, 7(2), 225-246.
- Australian Public Service Commission (2019). 'The Australian Public Service Commission: capability review and strategy for the future', Canberra: Commonwealth of Australia.
- Bass, Bernard M. & Bruce J. Avolio (1993), 'Transformational Leadership and Organisation Culture', *Public Administration Quarterly*, 17(1), 112-121.
- Cabinet Office Process Assurance Team (2012). 'Capability Reviews – How to Guide' (unpublished process document).
- Capability Review Process Assurance Team (2007). 'Capability Reviews – How to Guide', (unpublished). Provided to ANZSOG by Peter Thomas, Senior Fellow at Institute for Government.
- Carlson, Dawn S. & Pamela L. Perrewe (1995), 'Institutionalization of organizational ethics through transformational leadership'. *Journal of Business Ethics*, 14, 829-838
- Commonwealth of Australia (2019). 'Our Public Service, Our Future. Independent Review of the Australian Public Service'. Canberra: Commonwealth of Australia.
- Commonwealth of Australia (2019). 'Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry'. Canberra: Commonwealth of Australia.
- Cowdroy AO QC, Dennis., The Hon John Roderick McKechnie QC., Alan MacSporran QC., The Hon Robert Redlich QC., The Hon Peter Hall QC., Kenneth Fleming QC., The Hon Bruce Lander QC., Maj. Gen. Greg Melick AO RFD SC., The Hon M. F. Adams QC (2019). 'Unmasking corruption in public institutions', Joint communiqué from Australia's anti-corruption Commissioners', <https://www.ccc.wa.gov.au/sites/default/files/Joint%20Communique%20from%20Australia%27s%20anti-corruption%20Commissioners.pdf> .(Accessed 15 February 2020).
- Cowell, R., J. Downe, S. Martin, & A. Chen (2012). 'Public Confidence and Public Services: It Matters What You Measure'. *Policy & Politics*, 40(1), 120–140.
- Department of Education and Training (2016). 'Building Confidence in our Systems and Culture: Integrity Reform in the Department of Education and Training'. Melbourne: Victoria State Government.

- Department of Education and Training (2017). 'Working with Integrity: The Department of Education and Training's Second Report to the Independent Broad-based Anti-corruption Commission'. Melbourne: Victoria State Government
- Finn, Paul (1994). 'Public Trust and Public Accountability'. *Griffith Law Review* 3(1), 224-244.
- Government of Canada (2016). 'MAF Assessment Process'. Ottawa: Government of Canada.
- Government of Canada (2017). 'Evaluation of the Management Accountability Framework'. Ottawa: Government of Canada <https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/evaluation-management-accountability-framework.html> (Accessed 15 February 2020).
- Government of Western Australia (2018). 'Public Sector Reform Newsletter'. Perth: Department of Premier and Cabinet.
- Griffin AM, Michael., The Hon John Roderick McKechnie QC., Alan MacSporran QC., The Hon Robert Redlich QC., The Hon Peter Hall QC., The Hon Bruce Lander QC., Maj. Gen. Greg Melick AO RFD SC., The Hon M. F. Adams QC (2018). 'United against corruption - Leadership is the key to corruption prevention'. Joint communiqué from Australia's anti-corruption Commissioners, [https://www.ccc.wa.gov.au/sites/default/files/Joint%20Communique%20from%20Australia%27s%20anti-corruption%20Commissioners%20\\_United%20..pdf](https://www.ccc.wa.gov.au/sites/default/files/Joint%20Communique%20from%20Australia%27s%20anti-corruption%20Commissioners%20_United%20..pdf) (Accessed 15 February 2020).
- Harmer, Jeff & Andrew Podger (2013). 'Capability Reviews of Australian Government Departments 2010-2013'. The Greater China Australia Dialogue on Public Administration, Dialogue Workshop: Public Sector Human Resources Management, <https://www.anzsog.edu.au/preview-documents/research-output/5342-capability-reviews-of-australian-government-departments-2010-2013> (Accessed 15 February 2020).
- Independent Commission Against Corruption NSW (2018). 'Corruption and Integrity in the NSW Public Sector: an assessment of current trends and events'. Sydney: NSW State Government.
- Kuenzi, Maribeth, David M. Mayer & Rebecca L. Greenbaum (2020), 'Creating an ethical organizational environment: The relationship between ethical leadership, ethical organizational climate, and unethical behavior'. *Personnel Psychology*, 73(1), 43-71.
- Lindquist, Evert (2009). 'How Ottawa Assesses Department/Agency Performance: Treasury Board's Management Accountability'. In *How Ottawa Spends, 2009-2010: Economic Upheaval and Political Dysfunction*, edited by Allan M. Maslove, 47-88. Montreal: McGill-Queen's University Press.
- McGowan, Mark (2017). 'Service Priority Review to deliver lasting reform of the public sector'. Media Statement, May 4, 2017, Perth: Government of Western Australia, <https://www.mediastatements.wa.gov.au/Pages/McGowan/2017/05/Service-Priority-Review-to-deliver-lasting-reform-of-the-public-sector.aspx> (Accessed 15 February 2020).
- Mulgan, Geoff (2012). 'Government *with* the People: The Outlines of a Relational State', in *The Relational State: How Recognising the Importance of Human Relationships Could Revolutionise the Role of the State*, edited by Graeme Cooke and Rick Muir, 20-34. London: Institute for Public Policy Research.
- National Audit Office (U.K.) (2009). 'Cabinet Office Assessment of the Capability Review Programme'. Report by the Comptroller and Auditor General, HC 123 Session 2008-2009, London: National Audit Office.
- New Zealand Government (2014). 'Administrative & Support Services Benchmarking Report for the Financial Year 2013/14'. Wellington: New Zealand Government.

New Zealand Government (2015). 'Performance Improvement Framework, Core Guide 1: What is the Performance Improvement Framework?'. Wellington: New Zealand Government.

New Zealand Government (2015). 'Performance Improvement Framework, Core Guide 2: Undertaking a Performance Improvement Framework (PIF) Self-review'. Wellington: New Zealand Government.

O'Riordan, Joanna (2011). 'Organisational Capacity in the Irish Civil Service: An Examination of the Organisation Review Programme'. Dublin: Institute of Public Administration.

Panchamia, Nehal & Peter Thomas (2014). 'Capability Reviews'. London: Institute for Government.

Patton, Michael Quinn (2015). *Qualitative Research & Evaluation Methods: Integrating Theory and Practice*. 4<sup>th</sup> ed. Thousand Oaks, Calif.: SAGE Publications.

Paulk, Mark C., Bill Curtis, Mary Beth Chrissis, & Charles V. Weber (1996). *Capability Maturity Model for Software*. Pittsburgh: Software Engineering Institute.

Public Sector Commission (Western Australia) (2019). 'Culture in the WA Public Sector'. Perth: State of Western Australia.

State of Western Australia (2017). 'Working Together, One Public Sector Delivering for WA. Service Priority Review'. Perth: State of Western Australia.

Sunningdale Institute (2007). 'Take-off or Tail-off? An Evaluation of the Capability Reviews Programme'. London: Sunningdale Institute.

Teece, David J., Pisano, Gary & Shuen, Amy (2007), 'Dynamic Capabilities and Strategic Management'. *Strategic Management Journal*, 18 (7), 509-533.

The Ethics Centre (2018). 'Australian Cricket: A Matter of Balance'. Report Commissioned by the Board of Cricket Australia. Sydney: Cricket Australia.

Towell, Noel (2014), 'Veterans' Affairs' failures exposed in Australian Public Service Commission Capability Review'. *Canberra Times*, 8 December 2014.

Victoria University of Wellington School of Government (2017). 'Independent Review of the Performance Improvement Framework'. Wellington: State Services Commission.

Victorian Public Sector Commission (2015). 'Capability Review of the Department of Health and Human Services'. Melbourne: Victorian Public Sector Commission.





Australia &  
New Zealand  
School Of  
Government

**ANZSOG**