

OCCASIONAL PAPER

No. 3

***A Better Focus on Outcomes
through SRA Networks***



**STATE SERVICES
COMMISSION**

**Te Komihana
O Ngā Tari Kāwanatanga**

***This paper summarises
the State Services
Commission's approach
to improving strategic
management in the Public
Service, and
responsiveness to key
government priorities.***

***The paper describes
weaknesses in the present
system, and proposes the
creation of strategic
result area networks to
better focus on outcomes.
The implications of
networks, and how they
will work in practice, are
outlined.***

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Contents

Background	2
Problems with the existing strategic management system	3
Lack of clarity about government strategic objectives	3
Lack of leadership for individual SRAs	3
Accountability arrangements	4
Lack of coordination across government strategic priorities	4
Weak ‘intervention logic’ from outputs to outcomes to SRAs	4
Weak alignment between the budget and strategic management	5
Lack of ‘double loop’ learning	5
How the proposed SRA networks operate	7
Overview	7
Roles and relationships within the SRA Networks	10
SRA Committee	10
SRA Minister	10
SRA Ministerial Support Team	11
Network Ministers	13
Network departments	13
Crown Entities	14
Other providers	16
Central agencies	16
Accountabilities within the SRA networks	17
Ministers	17
Chief Executives	18
Implications	19
Better SRA specification	19
SRA quality criteria	20
Improved Evaluation	20
Integration of the budget process into strategic management	22
Critical success factors	23
SRAs	23
SRA outcomes	23
Budget process	23
Information management	23
Capability	24
Leadership and responsibility	24
Prime Minister	24
SRA Ministers	24
Network Ministers	25
Lead agency	25
Departments and Crown Entities	25
Annex: Resource allocation of SRAs within the budget cycle	26
Strategic phase (August to November)	26
Resource allocation phase (November to February)	26
Decision-making phase (February – April)	26
Production and presentation phase	26
Passing the Appropriation Bill	27
Ex ante documents finalised	27
Monthly reporting	27
Biannual reporting	27
End-of-year reporting	27

Background

This paper builds on a number of key reports which have reviewed the state of New Zealand's public sector management system – in particular, the Schick, ¹ and Logan ² reports. The Schick report (1996) highlighted that the system was geared more to the short-term production of outputs rather than to planning for the long haul, and to accounting for what has been produced rather than to evaluating progress in achieving major policy objectives. Schick's report mirrored concerns raised by the Logan report (1991).

The Logan report identified major problems in how governments set strategic priorities and how the Public Service helps them meet those goals. Furthermore, it noted that clearer specification and better achievement of outputs was effective only if there was certainty that the production of the outputs led to the achievement of the outcomes, and only if the outcomes could be broken down into measurable parts and distributed among the various departments as outputs.

The problems raised by the Logan report led to the development of the current system of Strategic Result Areas (SRAs) and Key Result Areas (KRAs). This system was intended to support progress toward strategic goals with better alignment between government priorities, departmental work, and chief executive performance. The results, as Schick made clear, have been patchy.

More recently, the Prime Minister expressed concerns about the responsiveness of the Public Service to government strategic goals and the coordination of policy and service delivery. In response, the Minister of State Services commissioned the State Services Commission (SSC) to investigate the current strategic management system, and the extent to which it is effective in both articulating broad government goals, and in focusing the Public Service on the operational achievement of those goals.

A Better Focus on Outcomes through SRA Networks ³ is a summary of the SSC's response. In short, it:

- looks at weaknesses in the existing strategic management system
- proposes the creation of SRA networks and outlines how they would work
- examines three implications of SRA networks: better SRA specification; improved evaluation; and integration of the Budget process into strategic management
- delineates factors critical to the success of SRA networks.

An annex at the end of the paper details the phases of the Budget cycle under the proposed SRA networks system.

¹ Allen Schick, 'The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change', SSC/Treasury, 1996.

² Steering Group, 'Review of State Sector Reforms', SSC, 1991, pp 46-48.

³ For a description of SRA networks see page 7.

Problems with the existing strategic management system

This paper takes the viewpoint that effectiveness is the primary goal of government – and that short-term efficiency, while important, is a lower-order driver. This is based on the argument that if the system promotes effectiveness, it will be more efficient in the long run as resources will not be wasted on unimportant activities. In contrast, when short-run efficiency dominates long-term effectiveness there is a risk that the wrong things will be done (albeit efficiently), and that desired outcomes will be lost in favour of short-term gains.

Outcomes have not been a strong driver in the current public sector management system, and many components of the Budget process and the government management system are designed to focus on outputs (efficiency) at the expense of outcomes (effectiveness). Particular problems that need to be addressed are:

- lack of clarity about government strategic objectives
- lack of leadership/sponsorship for individual SRAs
- weak accountability for outcomes
- lack of coordination across government strategic priorities
- weak ‘intervention logic’ from outputs to outcomes to SRAs
- weak alignment between the Budget and strategic management
- lack of ‘double loop’ learning.

Lack of clarity about government strategic objectives

Any strategic management system requires clear specification of what a government wants to achieve. New Zealand governments articulate their desired broad objectives through SRAs. These, however, are not always clearly specified. They are not sufficiently explicit to be translated into operational priorities, and they operate at varying levels. Some SRAs are sectoral aggregates of programmes rather than strategic goal statements, while others are so specific that they do not convey an overall goal. Further, rather than being a selective set of real priorities, current SRAs cover most areas of government’s work – and they enable departments to claim that much of their work supports one or more SRAs.

SRA specification both by Ministers, in setting broad goals, and by departments, in disaggregating and setting operational priorities for those goals, has not been particularly effective. SRAs are not integrated into wider processes such as departmental performance management systems, ex post monitoring of outcome achievement, and the Budget process.

Lack of leadership for individual SRAs

SRAs ‘sit’ over the top of government rather than driving its daily business. This means they remain largely ineffective as a tool of strategy because no one has the responsibility for championing them, driving them, and monitoring their achievement. Cross-government goals are seen as everyone’s responsibility; yet no one is responsible for them.

Accountability arrangements

The accountability system inherent in the *Public Finance Act 1989* deems Ministers responsible for outcomes, and departments responsible for outputs. As a result the Public Service has tended not to focus in any depth on how its outputs relate to desired outcomes of government. Moreover, although Ministers are politically responsible for outcomes, they are not accountable explicitly for them.

Lack of coordination across government strategic priorities

As high level priorities, SRAs generally require cross-portfolio commitment and action. Potential concord or conflict between SRAs also needs to be made explicit. Where two or more SRAs support each other, stronger coordination will ensure that there is no duplication of effort. Where the achievement of one SRA conflicts with another, coordination at all levels of government is essential to ensure that the preferred balance between the two is reached. Because no one has the task of ensuring the achievement of each SRA, no one has the job of coordinating resources and efforts towards them. Ministers remain focused on the performance of the departments and Crown entities for which they are explicitly seen to be responsible. The incentives for Ministers to address single portfolio issues are much stronger than the incentives for them to operate collectively.

In the area of fiscal management, the *Reserve Bank Act 1988* and the *Fiscal Responsibility Act 1994* have attempted to address coordination, strategy and leadership problems with greater transparency, requiring government to specify a clear ex ante strategy and to provide progress reports and independent monitoring. This sort of rigour has not been applied to other areas.

While there are a few instances of cross-portfolio consideration of new initiatives (*environment, transport, justice*), there is little cross-portfolio review of existing initiatives. The Cabinet, Budget, and purchase systems, instead, focus almost exclusively on individual portfolios. In terms of packaging related initiatives from within portfolios to achieve overall outcomes, coordination is also weak.

Weak 'intervention logic' from outputs to outcomes to SRAs

Departments are poor at explaining (ex ante) the logic of how their outputs will contribute to government's SRAs, and at evaluating (ex post) how well their outputs have contributed to the SRA. This is partly because such information and analysis has not been demanded of them. While outcome measures are included against each output in the Main Estimates, there is no emphasis on providing an 'intervention logic' between each output and the desired outcomes. In any improved system, Ministers should be provided with an explicit 'intervention logic', showing how all outputs and expenses contribute to outcomes.

The lack of an 'intervention logic' and an evaluation process means that Ministers are poorly informed about the progress towards achieving SRAs or other outcomes. With poor information, Ministers are badly placed to make the hard decisions about the mix of interventions to achieve their outcome objectives.

Weak alignment between the budget and strategic management

Currently, the Budget operates independently of strategy rather than functioning as an instrument of strategy. Even the main opportunity for Ministers to debate strategy and trade-offs between key outcomes (that is, at *Premier House*⁴) is often dominated by a fiscal and savings focus.

Governments will always face competing priorities between spending, taxing and repaying debt. A strong strategic management system should assist in the allocation process. Currently, certain aspects of the Budget process militate against this because:

- there are fixed multi-year baselines for most portfolios (in effect, a regulated price and volume cap)
- the potential for resetting priorities within portfolios is not fully utilised
- there is lack of a process for identifying and managing cross-portfolio trade-offs
- the pressure for productivity and efficiency is managed for much of the Public Service by reducing real baselines rather than through resetting priorities based on strategy.

Treasury Ministers face two objectives: macro fiscal control, and improved micro resource allocation. But macro fiscal control tends to win out over improved micro resource allocation. This is because at the micro level the Budget process is trying to address two of the most complex problems facing applied economics: what price to charge for monopolistic output, and what quantity/quality to supply (demand revelation).

In practice, New Zealand solves the problems with price and volume caps. Public good analysis shows the weakness of non-price tools to address the demand-revelation problem, and demand-revelation methodologies for addressing volume questions are crude at best. Output price reviews ignore the effectiveness question ‘is the right thing being made?’ and focus on ‘is the thing being made right – that is, efficiently?’

There is no informed feedback loop in the Budget process to indicate whether the mix, trade-offs and amounts in the previous Budget were appropriate, given the desired effectiveness goals. So the setting of baselines in subsequent years cannot be informed by lessons learned from current activities and expenditure.

Lack of ‘double loop’ learning

Ministers receive little information on the effectiveness of the outputs they are purchasing for desired outcomes. The ex ante components of output specification are far more sophisticated and rigorous than the ex post accountability and reporting

⁴ *Premier House* refers to a practice of recent years for Ministers of the Crown to meet at the Prime Minister’s residence, in a reasonably informal and relaxed setting, to discuss strategic issues and planning for the ensuing period. (Earlier, the meetings were held at *Vogel House*, a former Prime Ministerial residence.) A minimum number of senior officials attend these scene-setting sessions.

components. The current system requires the generation of a wealth of information related to efficiency (what outputs are being produced, at what cost, etc.), but there is little information related to effectiveness. The lack of information on effectiveness makes it almost impossible for Ministers to make informed strategic decisions. This means that they are essentially making decisions about future strategy and expenditure in an information vacuum.

The New Zealand public sector management system lacks both the skill and habit of evaluation. Little outcome-based evaluation occurs in the New Zealand Public Service. Neither departments, nor central agencies, monitor and evaluate outcomes. A multitude of disincentives to evaluation have been identified, including:

- *low perceived Ministerial demand* – Ministers do not frequently demand evaluation information and in some cases discourage it (in purchase agreements). There are few incentives for Ministers to subject their own policies to scrutiny. When resources are scarce outputs are preferred to investment in evaluation. In the absence of demand departments do not supply evaluation, (although this could be seen as an omission in terms of their responsibility to provide free, frank and full advice). An examination of a sample of Cabinet Committee papers from April this year showed that only 7 per cent included evaluation criteria ⁵
- *outcome/output dichotomy* – the accountabilities in the *Public Finance Act 1989* have been interpreted in such a way that departments have focused almost exclusively on outputs, without corresponding pressure to link outputs to outcomes through clear ‘intervention logic’
- *poor outcome specification* – it is difficult, if not impossible, to evaluate policies and programmes when the desired outcome has not been clearly identified, or where outcomes are subject to changing policy settings
- *disincentives in Budget arrangements* – as noted above, there are limited incentives within and across portfolios for resetting priorities. This would indicate a need for evaluation of what is working, what is not, and where reallocation could occur. Evaluation is costly, and often requires longer time-frames than can be accommodated in current Budget arrangements
- *methodological issues* – with some justification departments cite problems in establishing causality as a reason for not evaluating, particularly in the social policy area.
- *poor capability* – in both the public and private sectors, there is a shortage of the skills and capabilities to carry out evaluation and to manage external evaluators.

⁵ Unpublished report ‘Review of sample of Cabinet papers to determine the level of evaluation proposed’, SSC, 1998.

These criticisms do not suggest that the New Zealand public sector management model is fatally flawed. The business of government is intrinsically untidy as it involves trade-offs between competing interests and objectives. No system is perfect. Recent reports on the New Zealand model have concluded that its foundations are basically sound.⁶ Indeed, its many achievements have received international acclaim. The strategic management system itself has ‘increased department’s awareness of government priorities and helped to clarify their own departmental strategic objectives’.⁷ It should be stressed that the outputs focus was a major step forward when it replaced departmental concentration on inputs rather than results. Now that a focus on outputs is well entrenched, the next step is to build on that foundation and raise the sights to focus on outcomes and delivering on the key priorities of government.

How the proposed SRA networks operate

Overview

SRA networks are designed to refocus the Public Service on the achievement of a government’s key priorities. They operate on a three-year cycle akin to the current system, but emphasise clearer strategy, better leadership, and more coordination.

SRA networks are predicated on good SRA specification (see page 19). Ideally, a government has a vision of what sort of society and nation it wants to promote. From this vision, and drawing upon strategic policy advice, government identifies a select number of areas (eight to ten) on which to focus. Each area is encapsulated in a SRA. If the number of SRAs proliferates, then priorities are probably not being set truly, and followed.

At the start of the three-year SRA cycle, each SRA is disaggregated into a set of SRA outcomes drafted to ex ante SMART (specific, measurable, achievable, realistic, and time-bound) criteria. At the same time, performance indicators for ex post assessment – strategic results indicators (SRIs) – are established; and information requirements for these SRIs are also specified. This whole process makes up an SRA statement which forms the ex ante specification. The SRA statement is written with a three-year focus, but with annual review.

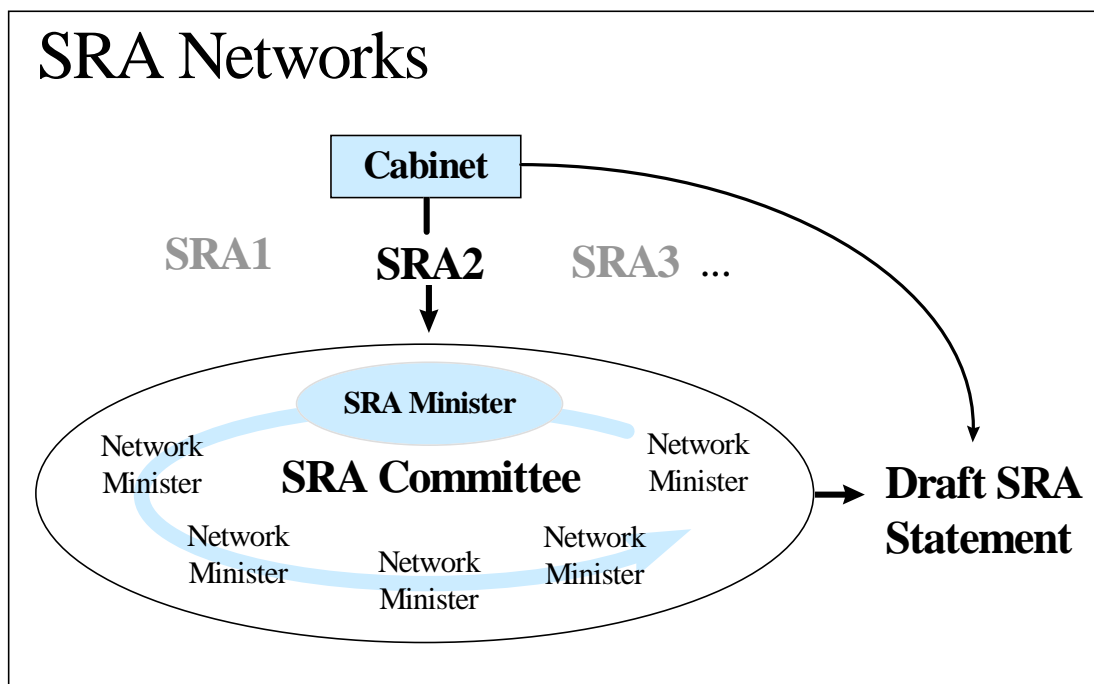
Each SRA is championed by a senior Minister, known as the SRA Minister, who is responsible to Cabinet for the achievement of the SRA (and is accountable for the provision of advice to Cabinet). SRA Ministers would be assigned by the Prime Minister. Each SRA Minister is also the Minister responsible for coordination related to that SRA. The SRA Minister chairs an SRA Committee. The SRA, then, is the organising principle for the SRA networks.

⁶ For example: Allen Schick, ‘The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change’, SSC/Treasury, 1996; ‘Future Issues in Public Management’, SSC, 1997; and ‘Assessment of the State of the Public Service’, SSC, 1998.

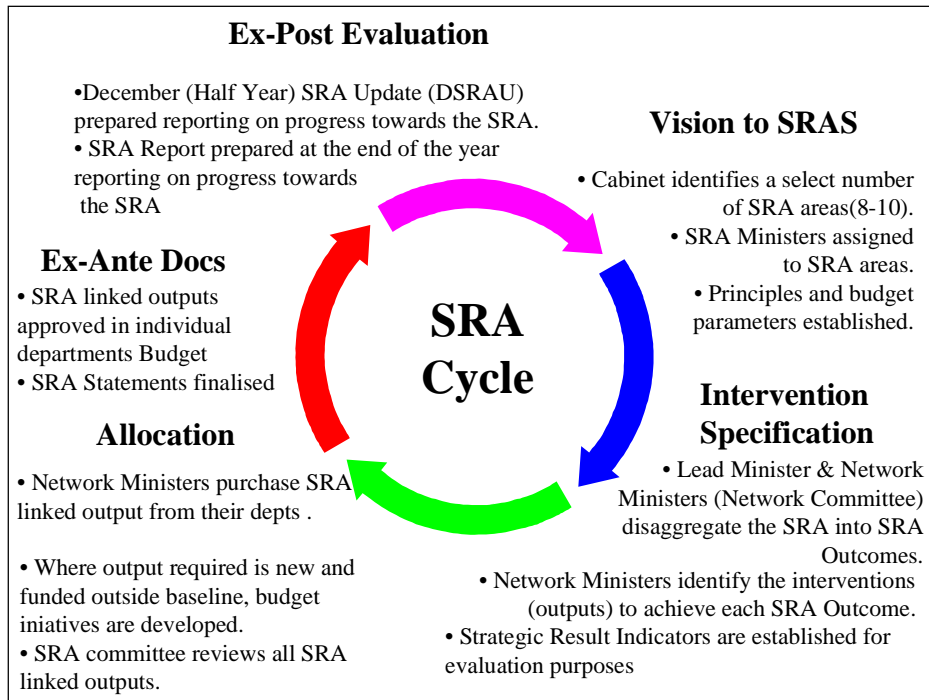
⁷ ‘Strategic Management in the Public Service: a review of the implementation of key results areas 1994-97’, SSC, 1998, p 1.

SRA Committees consist of those Ministers (Network Ministers) who are likely to purchase substantial strategic outputs from their departments or Crown entities in support of an SRA. This test of substantiality will vary according to each specific SRA and outcomes. Some Ministers may make a relatively small contribution to the strategic outputs and will not necessarily join the SRA Committee. While any Responsible Minister within a sector can potentially become a Network Minister, not every Minister will necessarily be in a network. Ministers who are not in networks continue to operate as they do now, except where an SRA Minister negotiates to purchase some strategic output from a non-Network Minister.

The diagram below outlines relationships within SRA networks.



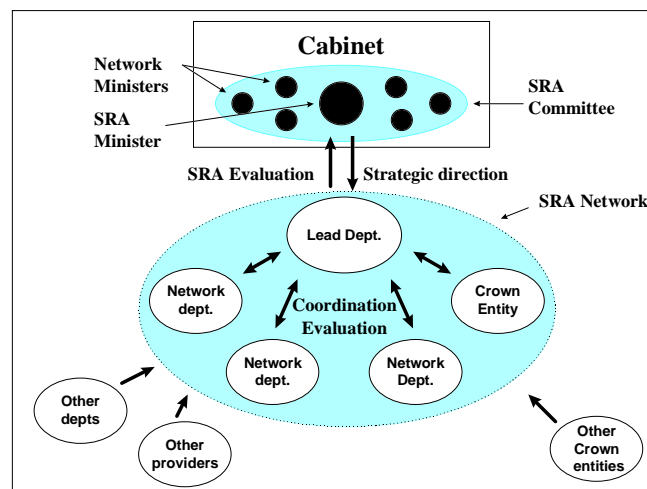
The SRA is resourced through either baseline or baseline-plus-new-initiative funding. The SRA Committee's role is to identify the mix of interventions and related outputs to achieve the SRA, in the early stage of the Budget. In effect, the SRA Committee, as the collective of Network Ministers, directs the purchase decisions of each individual Network Minister for strategic outputs. Each Minister is responsible for providing information which shows that the outputs they are purchasing from their department(s) contribute to the achievement of the outcome(s) set out under the SRA. Actual purchase responsibility remains with individual Ministers. The diagram on the next page provides an overview of the SRA cycle.



Departments and Crown entities follow their Ministers in and out of networks, in line with the substantiality test. Departments and Crown entities that are not in networks continue to operate as they do now.

Effective operation of networks requires considerable coordination – of people, information and resources. If any Minister, or agency, is involved in more than one network (which may occur with multi-functional departments like Commerce), complexity and internal coordination issues multiply. So the effective functioning of networks depend on the number of SRAs being kept to a small number. This is consistent with the principle that the SRA networks are designed to enhance the effectiveness of the Public Service in putting into effect government key priorities. They are not designed to capture all desired outcomes.

The diagram below illustrates a generic SRA network. Downward arrows indicate the disaggregation of an SRA; arrows pointing up indicate the direction of information flows:



While they focus on how to deliver a government's priorities, SRA networks are also likely to have spin-off benefits for the public sector as a whole. They will provide the starting point for shifting the behaviour of the Public Service towards generating the sort of information Ministers need to determine a desired set of outcomes – including the mix of outputs that is likely to help them achieve those outcomes. The good practice that they promote, and the sort of information generation they facilitate, should also permeate to other non-priority/non-SRA activities.

Similarly, networks could be applied to lower-order problems or to sectors which require concerted and coordinated action. SRA networks do not preclude the establishment of non-SRA networks, a range of which currently exist (the *justice* sector, the *transport* sector, the *strengthening families* network, and agencies included in the *Green Package* arrangements). The difference between these and SRA networks is that the latter are pitched at a higher, more visionary level and are driven by Ministerial sponsors (SRA Ministers).

Roles and relationships within the SRA Networks

SRA Committee

It is not intended that SRA Committees would replace existing Cabinet Committees. They may in fact meet on an irregular basis; more frequently during the strategic phase of the Budget cycle (prior to *Premier House*) and when reporting obligations demand it, that is, when SRA statements are being prepared. There might also be a six-monthly review of SRA progress which would require the SRA Committees' attention. The SRA Committees could therefore be seen as akin to the current G5⁸ group of Ministers, but formalised and with a clear strategic focus.

SRA Minister

It is imperative that there is a 'champion' to drive and monitor the achievement of each SRA and set of outcomes – and to coordinate the relevant Ministerial, departmental and non-departmental players. Each SRA Minister has several roles:

- specifying the SRA clearly
- disaggregating the SRA into SMART outcomes
- determining the principles that underpin and inform each strategic outcome (for example, this could include concepts that reflect a government's approach to social policy area such as *self reliance*, *social/community responsibility*, and supporting citizens who cannot gain access to *health*, *housing* or *education* unaided)
- aggregating the 'outputs to outcomes' logic which network departments have developed (potentially in consultation with each other)
- providing a coordinating forum for relevant Ministers to determine which mix of SRA outputs from departments would most likely achieve the given SRA

⁸ Refers to an ad hoc ministerial committee convened to consider cross-portfolio, welfare and employment issues.

- identifying risks and suggesting changes in the mix of SRA-linked outputs when necessitated by changing conditions and exogenous factors
- monitoring progress towards SRAs, which also means encouraging and commissioning the evaluation of policies and policy settings
- monitoring service delivery/implementation, to ensure that coordination at the policy level is mirrored appropriately at the operational level.

While it is the prerogative of the Prime Minister to appoint Ministers to the role of SRA champion, that decision might be taken in the light of the *qualities and competencies* required for the role. To be effective, the SRA Minister would need to have superior negotiation and coordination skills, and a capacity to take a whole-of-government view (as opposed to a narrow portfolio perspective).

It is also important to consider the *incentives* for a Minister to accept the champion role. Why would Ministers set themselves up as champions of high-level outcomes that rely on the performance of other colleagues for their achievement, when current incentives are to deliver outputs related to one or more discrete portfolios? Potential incentives include:

- *influence* – the SRA champion leads the SRA Committee, and will have the casting vote in issues related to the decisions made by the Committee. In Cabinet they would have superior information derived from their cross-portfolio role
- *seniority* – SRA Ministers will, by definition, be key players in Cabinet. They report directly to the Prime Minister on SRA progress
- *kudos* – if the role of SRA Minister is promoted publicly (especially by the Prime Minister) as a key one in meeting a government’s strategic priorities, SRA Ministers are likely to be seen by the electorate as important and as being able to get things done. High performance (as well as poor performance) would be visible to the electorate through SRA progress reports.

SRA Ministerial Support Team

The SRA Minister requires advisory and administrative support. A number of roles, which mirror those of the SRA Minister, need to be performed including:

- providing advice on disaggregating the SRA into outcomes
- assessing the ‘intervention logic’-output mix provided by departments
- designing SRIs
- monitoring progress against SRIs, and commissioning evaluation
- providing purchase advice on which mix of departmental outputs would contribute most effectively to the achievement of the SRA

- providing advice as a second opinion to that provided by network departments
- providing practical support to ensure coordination throughout the network.

The support team would need a high capability for policy advice, assessment, and evaluation. It would also need good knowledge of the sector – although ideally it should also be relatively free of capture by individual departments (to ensure neutral purchase advice). Cost is also a key concern, as is overall capability and clear lines of accountability.

Four options have been identified for the organisational form of support teams. These are:

- *permanent strategic policy agency* – a strategic policy ministry which would be dedicated to the development of strategic policy across government and accountable to the SRA Minister. Such an agency might lack sector knowledge and would be costly to set up and to run (since full capability is not required year-round, down-times would be wasteful)
- *central agency* – a special unit attached to a central agency, probably DPMC. No central agency is currently set up to fulfil this role. It would require a boost in capability and some shift in focus. This option might be seen by other departments as creeping re-centralism. Buy-in would be problematic. There might be some conflict of interest between this role and general performance review functions
- *an ad-hoc unit comprised of secondments from departments within the network* – a ‘virtual department’ which would have a permanent chief executive and corporate staff. There would be potential conflict of interest through secondments bringing departmental bias to the job. Accountabilities (to host unit and departmental home) might be blurred. It might have negative implications for the capability of organisations supplying secondees
- *unit within a lead agency* – this would be located within the agency identified as the lead agency within the network. The agency would have good sector knowledge. The accountability of the agency would be clear as they would be accountable directly to the SRA Minister (who is also their portfolio Minister). There is some risk of capture. Protocols might help to reduce departmental bias – although, as the lead agency is the key policy adviser, some dominance in the network would be inevitable.

On balance, location within the network lead agency would appear to be the most realistic and practical option. Its core capability would be resourced as an SRA output. It is likely that people from other agencies would be bought in to boost capability and technical expertise when required (for example, evaluation expertise). Capability requirements would vary throughout the year, with demand being greatest during the strategic phase and later in preparing SRA statements (including pulling together

evaluation and monitoring information). Therefore the preferred option is core capability supplied by and housed within the lead agency, with supplementary support from other agencies to make up a 'virtual SRA support team'.

There are potentially significant capability and resource implications for the lead agency in assuming additional responsibilities and functions, in particular those related to support for the SRA Minister. These costs will be resourced as part of the strategic outputs contributing to the SRA, as a new output class (for example, 'SRA support'), or will be met by re-setting priorities from within existing baselines.

Lead agencies need to develop a specific capability in network coordination and relationship management. They need to develop expertise in monitoring and evaluation which is related not only to their own SRA outputs, but also to the collective outputs purchased in support of the SRA. This implies a capacity to evaluate broad policy settings and the mix of interventions related to an SRA. They will also need to be able to assess the quality of the 'intervention logic' in the analysis supplied by other network agencies.

The chief executive's role would also be expanded. It is likely that chief executives, or their representatives, will also have to meet for strategic conversations along the lines of those held by Network Ministers, and arguably more often (as they coordinate their individual outputs to achieve a joint outcome). These might occur spontaneously, but when discussions that cover the entire SRA and its achievement are needed, the chief executive of the lead agency will call colleagues together. It is likely that there would also be opportunities for Ministers to engage in strategic conversations with senior officials, so that they have access to broader information than available within their own departments.

While chief executives of the lead agencies will not need to be recruited against different competencies, there will be a different stress on some competencies. The lead-agency chief executive will need to have better skills in relationship management, especially for promoting the collective interest. The chief executive performance agreement would need to include this role.

Network Ministers

Network Ministers are responsible to the SRA Minister for providing SRA-linked outputs that they have purchased. In supplying those SRA-linked outputs, Network Ministers ensure that any agency for which they are responsible provides a clear explanation of how those outputs contribute to outcomes. The Network Minister also purchases outcome-evaluation information.

Network Ministers continue to purchase non-SRA outputs according to their individual portfolio policy goals, as they do now.

Network departments

Network departments provide SRA and non-SRA outputs according to purchase agreements with their Ministers.

These departments will need to have enhanced capability in a range of areas, and to be able to work co-operatively with other agencies. Information management, and sharing, therefore need to be improved. Information requirements mean that the departments need to have enhanced capability in ‘intervention logic’ (to be able to show how their outputs link to desired outcomes) and in evaluation. All departments in an SRA network will be required to show a conceptual split in their budget between SRA outputs and other outputs.

Chief executives of Network departments will need superior relationship-management skills – both in dealing with other network departments and in managing, where appropriate, more complex relationships with Crown entities (see below). A demonstrated commitment to the collective interest is vital.

Crown Entities

SRA networks allow for increased strategic alignment of Crown entities with government objectives, through the incorporation of key Crown entities into SRA networks. Crown entities will play an important role in a number of SRA networks because they dominate service delivery in key policy areas such as health, education, science, housing, and transport. It is estimated that \$9-10 billion of public money was expended by them in 1995/1996.⁹

Because the Crown-entity sector is complex and organisations are not uniform, Crown entities require close examination in terms of how they can be incorporated into SRA networks. There are three key issues to consider here:

- *arms-length control* – Crown entities are deliberately established at arms-length from the Crown: Ministers and departments are not expected to be involved in the operational business of Crown entities. Furthermore, Crown entities (unlike departments) are not necessarily obliged to give effect to lawful government policy. This makes closer strategic alignment between the activities of selected Crown entities and the policy objectives of government more complex.¹⁰
- *variation amongst Crown entities* – the significant variation on a number of levels between different Crown entities means that across-the-board ‘one size fits all’ changes may not be the best approach or even, in some cases, possible. The inclusion of Crown entities into SRA networks will need to be done on an organisation-by-organisation basis.
- *resourcing* – Crown entities are not necessarily funded on the same basis as departments. They generally derive revenue from either an appropriation

⁹ Report of the Controller and Auditor-General on ‘Governance Issues in Crown Entities’, 1996.

¹⁰ A government department, on the other hand, is part of the legal Crown and, in general, does not have the status of a separate body corporate. All departments operate within a clear statutory and conventional framework, which establishes a close and hierarchical relationship between department and Minister, and clearly makes the department an instrument of Government policy.

(usually a non-departmental output class) through a Vote¹¹, levies, trading or third-party activities, or devolved funding through another Crown entity; and a number are funded through more than one of these methods. Therefore it will not always be possible to use the purchase relationship to achieve alignment between the activities of a Crown entity and government's priorities (as can be done with departments).

Crown entities identified as producing substantive outputs within given SRAs would be incorporated into SRA networks through their Responsible Minister, who would be a member of the SRA committee.

Given the nature of the relationship between the Responsible Minister and the Crown entity, and the variation between Crown entities in function as well as governance and legislative arrangements, a two-step decision process will need to be followed on an organisation-by-organisation basis, as outlined in the following two paragraphs.

Firstly, a decision will need to be made on whether it is necessary or appropriate for a given Crown entity's activities to be shaped by government's strategic priorities. In some cases it may be that the entity will contribute to SRAs simply by performing its function well, without the need for detailed Ministerial direction.

Secondly, if the choice has been made to align the activities of the Crown entity with an SRA, a decision needs to be made about how the levers of control available to the Responsible Minister will allow this to be done. Such an approach will need to be consistent with the statutory basis upon which each body is established. The levers of control might include:

- the purchase agreement
- the Statement of Intent process
- other accountability documents
- Ministerial direction
- requirement to have regard to and/or follow government policy
- informal means
- other means (such as regulation, policy, and legislative initiatives).

There is a high level of variation across Crown entities in terms of the levers of control and influence the Minister has available, and the potential usage of each lever can be qualified.¹² It is envisaged that the directives of the SRA Committee would shape an individual Minister's approach to the levers of control that are available.

¹¹ The level of funding received by some Crown entities is dependent on the choices made by users of the service: for example, tertiary education institutes receive funding on the basis of the number of 'effective fulltime students' (EFTs).

¹² For a detailed analysis of the full range of levers of control available to the Responsible Minister see Appendix 1: The Instruments of Control Available to Ministers, in 'The Role of the Minister in Relation to Crown Entities in a Minister's Portfolio', SSC, 1998 (Draft).

Each Minister would be responsible for providing information on the contribution of the Crown entity towards the achievement of the outcome set out under the SRA. This has implications for both the Crown entity and the Minister's department, as well as for the relationship between them. For example:

- *Crown entity* – reporting by the Crown entity would need to cover SRA matters. This might lead to increased reporting from the Crown entity to the Responsible Minister, which could have resource and capability implications.
- *departments* – any change in the expectations that a Minister holds in regard to the department's relationship with a Crown entity will have resource and capability implications for the department. In some cases the change will highlight issues that have been identified previously – for example, not all departments are explicitly funded for their functions and duties in relation to Crown entities.

Other providers

Governments purchase significant outputs from providers not in the public sector (that is, private businesses or non-profit/voluntary organisations). These purchases are generally made by departments. There would be no change to current arrangements under SRA networks, although in taking a whole-of-sector approach the lead agency might identify output gaps where additional purchase is indicated.

Central agencies

Under SRA networks the roles of central agencies (Department of the Prime Minister and Cabinet (DPMC); The Treasury; and SSC) remain fundamentally the same, although they may take on additional tasks related to ensuring effective functioning and infrastructure requirements of networks.

Central agencies would still manage:

- support for SRA development (DPMC)
- the Premier House process (DPMC, SSC, Treasury)
- the Budget process (Treasury)
- chief executive performance assessment (SSC).

New roles for central agencies would include:

- *integration of SRAs into the Budget* – if the SRAs are to be resourced then there will be budgetary implications (whether they come out of baselines or not). While individual departments would advise their Minister, DPMC and Treasury would coordinate and advise Cabinet
- *whole-of-government information policy* – networks change over time, so it is important that the basic information infrastructure allows departments to

move to new networks with the minimum of new investment in information systems. The SSC will have a continuing role in this area

- *monitoring strategic performance* – SSC, DPMC and Treasury will all have continuing roles in measuring and monitoring performance. Some adjustment in mechanisms might be required, particularly in the chief executive's standards-expectations letter and subsequent performance assessments
- *coordination and management of information across networks* – while it falls on the lead agency to coordinate information within the network, there remains a need to ensure coordination and sharing of information across networks. All central agencies will have a role in this area: policy coordination (DPMC), financial management (Treasury), and capability (SSC)
- *development of protocols for relationships between agencies and mediation of conflicts* – SRA networks require new relationships between agencies (for example, lead agency to network department; lead agency to central agency) which might require formalisation through protocols. Both DPMC and the SSC have roles to play in facilitating the development of protocols, and in facilitating good relationship management (including conflict resolution) within the networks
- *assessment of capability* – SSC work will continue in this area with an added dimension of network capability.

Accountabilities within the SRA Networks

Ministers

One of the criticisms of the New Zealand accountability system is that while Ministers are deemed responsible for the specification of outcomes, the selection of departmental and non-departmental outputs, and the use of regulation, there are very few mechanisms for monitoring their performance or holding them to account for results. SRA networks enhance Ministerial accountability in several ways: firstly, by ensuring clearer outcomes specification (so that what they are trying to achieve is visible); and secondly by the evolution of mechanisms for reporting publicly on progress towards the achievement of outcomes.

Accountabilities are strongest where they matter most – that is, for the achievement of strategic priorities. SRA networks demand that an SRA Minister (with the SRA Committee, and the support team) develops and articulates an ex ante SRA statement and reports on progress in meeting objectives through an ex post SRA report. These statements enhance transparency by publicly stating the intervention mix chosen by Ministers to achieve desired outcomes. Ideally, SRA Ministers would report to Parliament on the achievement of SRAs.

The Network Ministers will be responsible for the purchase of the outputs which have been identified by the SRA Committee from their departments or other providers.

They will also be responsible for ensuring that the providers demonstrate (through ‘intervention logic’ and evaluation) how the output links to the SRA outcome. Failure to perform will be visible in SRA documentation.

In short, SRA networks strengthen Ministers’ roles in terms of ex ante outcome specification and intervention selection, clear measurement and monitoring of progress against that, and ex post public reporting of results. Overall transparency and public scrutiny would be significantly enhanced, thereby filling the gap in the current accountability system.

Chief Executives

The levers for holding chief executives to account for all or any aspects of their own or their department’s performance are very strong in the New Zealand Public Service, although it has been argued that they have not been used to their full potential. Section 32 of the *State Sector Act 1988* has been interpreted as the chief executive being ‘responsible and therefore accountable for the management of the department without exception or qualification’.¹³ Mechanisms currently in place to advocate responsibility and accountability include the standards-expectations letter issued to all chief executives, the chief executive performance agreement (CEPA), and the subsequent performance assessments.

These mechanisms provide the foundation for ensuring that chief executives focus on their contribution to a government’s overarching priorities. In the 1997 Report of its Inquiry into Departmental Reporting to Parliament, the Finance and Expenditure Select Committee noted that, where appropriate and possible, chief executives should be encouraged to set out the relationships between their outputs and a government’s SRAs. It is important to note that, given the nature of SRAs, it is unlikely that individual chief executives or agencies can be held responsible for their non-achievement.

The CEPA for chief executives involved in an SRA network would be strengthened to acknowledge the role played in a network and the requirement to show explicitly how outputs contribute to desired outcomes. Performance in these areas might be reflected in remuneration (which is consistent with the ongoing revision of remuneration processes to include recognition of contribution to strategic priorities). Specific requirements may include providing ‘intervention logic’ on how a SRA-linked output relates to a given SRA, evaluating how a SRA-linked output helped achieve the SRA, and clear expectations about coordinating and interfacing with other agencies.

Concerns have been raised about the existing number of accountability documents and the related compliance costs for departments and chief executives. While SRA networks require additional reporting requirements (in terms of evaluation information, and SRA-related ex ante and ex post information), these do not apply across the board. Rather they are limited to key priority areas. Moreover, the

¹³ ‘Responsibility and Accountability: Standards Expected of Public Service Chief Executives’, SSC, 1997, p 8.

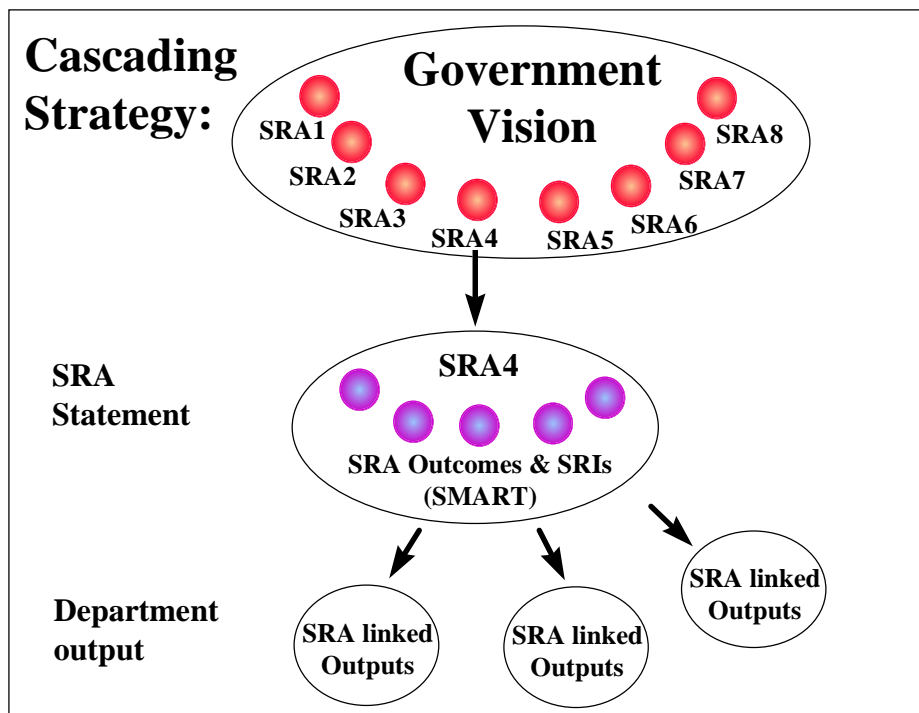
Commission is currently reviewing existing accountability requirements in the search for areas where some reduction in compliance costs might occur.

Implications

Better SRA specification

The success of SRA networks is dependent upon good quality SRAs. The current SRAs have had mixed results. Partly because of the poor quality and all-encompassing nature of the SRAs, the Public Service has not been effective in disaggregating and operationalising them.

In essence there should be a cascading strategy from outcomes to outputs.¹⁴ SRAs are the main drivers of the strategic management system because they represent targeted priority areas. Therefore it is essential that any proposed strategic management system has clear, well specified SRAs. The diagram below depicts the relationship between these various concepts.



It is inappropriate to suggest the content of a government's strategic objectives. However, having 'quality criteria' is critical for the development of good-quality SRAs.

¹⁴ It is important to emphasise that SRAs are targeted priority areas and do not encompass all Government outcomes.

SRA quality criteria

The quality of an SRA should be judged against the following criteria:

- *material* – the goal should clearly relate to the welfare of ordinary citizens. It should be a key lever to improved well being. Ministers should be able to agree to an SRA as a high-priority objective and to give their commitment to it as a driving force in government management
- *controllable* – government must be able to exert a significant long-term effect on outcomes. Results should be able to be directly influenced (but not necessarily wholly controlled, given multiple extraneous factors and unpredictable events) by government action within the time-frame chosen
- *simple* – an SRA should comprise a single overall objective (or if there are multiple objectives these should be consistent). It should be able to be easily understood and operationalised by the Public Service
- *assessable* – an SRA should be defined in a way that allows progress in working towards the desired outcome to be monitored (for example, through proxy indicators) if not directly measured. It should be possible to offer regular updates on the current status of the SRA, and to set targets for improvements. These might also be compared against international benchmarks
- *robust* – an SRA needs to be perceived as durable over a given time period, so that it acts as a stable goal for the Public Service to work toward. As such, each SRA needs to be explicit enough to be meaningful, but broad enough to remain relevant in the face of changing conditions.

Improved Evaluation

SRA networks are predicated on good information about what currently works and what does not. This requires a systemic evaluation capacity that is currently lacking in the New Zealand system. Evaluation is required both at the level of the SRA Committee (to test the effectiveness of mixes of interventions and policy settings) as well as at the departmental level (to test the effectiveness of individual interventions).

In the absence of evaluation (or robust alternative tools for ex post review of policies and policy settings), SRA Ministers and Network Ministers cannot know whether the outputs they link to the SRA will actually have an impact on outcomes. Resetting priorities (including any adjustment to baselines) should only be based on evaluation/review of current policies and interventions.

Very little outcome-based evaluation occurs in the New Zealand Public Service, and clearly, many departments perceive weak incentives to invest resources in creating information on the impacts of interventions.

It should be noted that there are some differences across sectors. While economic outcomes seem to be relatively well tracked (economic indicators provide the basis for

this) and substantial progress is being made in the environment/sustainability areas, other sectors (in particular, social policy) are falling short of the mark. This might be partly because in those sectors there is no single agency which has the responsibility to monitor or evaluate the impacts of a mix of interventions. Reviews of overall policy settings, therefore, as distinct from evaluations of individual interventions, are rare. SRA networks should help to achieve some traction here by identifying a lead agency to assume responsibility for monitoring and evaluation.

SRA networks create significant incentives to evaluate. These include:

- *enhanced Ministerial demand* – SRA networks require evaluation information; therefore Ministers (both the SRA Minister and the Network Ministers) will have an incentive to demand it. Evaluation will occur at two levels: Network Ministers will require evaluation of targeted strategic outputs (this should in turn improve the capacity for internal resetting of priorities); SRA Ministers will demand evaluation of broad policy settings (mixes of outputs). This will in turn require evaluation information from Network Ministers (and their departments), thereby creating a virtuous circle of demand. SRA Ministers will also require some cross-government outcome information (for example, in social policy where outcome achievement is dependent on the activities of multiple agencies), necessitating the development of key outcome indicators. They would also commission evaluation of broad policy settings against outcomes
- *better links between outputs and outcomes* – SRA networks are based on better specification of outcomes and make it clear that organisations are required to provide information on links between their outputs and desired outcomes. This should stimulate improved ‘intervention logic’ in departments and create further demand for evaluation at that level
- *budget incentives* – Departments will realise that they need good evaluation information to ‘prove’ that their activities should be funded as crucial to strategic priorities. Over time they should realise that evaluation is also an enabler of effective internal reprioritisation.

Despite incentives, capability issues will not be solved overnight. There is currently a dearth of skills and capabilities to both actually carry out evaluation and to manage external evaluators (problems with capability have been identified in both the public and private sectors). However, by increasing the demand for evaluation SRA networks will create incentives to build up capability to supply. Central agencies should play a role in facilitating/disseminating ‘good practice’, which should include creating a framework for indicating when evaluation ought to be done. This would avoid the unnecessary compliance costs that might arise from making evaluation mandatory (sometimes other review tools/overseas information might provide adequate indicative information). By definition, however, any SRA-linked output would be targeted for some form of evaluation or review.

Integration of the budget process into strategic management

The relationship between the Budget process and strategic management is a major problem in the current system. Resources are not being allocated according to SRAs, there is little resetting of priorities between portfolios, and the Budget is often driven by savings.

Because SRA networks focus on a set of selected priority areas (SRAs), not all resources in the Budget would be linked to an SRA. The SRA Minister and Committee decide to purchase a number of strategic outputs, which Network Ministers in turn purchase from their departments. These strategic outputs are chosen on the basis of their ability to contribute to the achievement of the SRA. Network Ministers also continue to purchase outputs which are not explicitly SRA-related. In effect, where a department contributes to the achievement of an SRA the purchase agreement will be split (conceptually) into SRA and non-SRA outputs. Accountability for the delivery of departmental output will remain with the chief executive of the given department.

For SRA networks to provide governments with better facility for strategic management, the identification of resources for SRAs should occur early in the Budget process. Only at this stage can specific trade-offs be made, so that desired SRAs in one area are weighed up against desired SRAs in another. Clarity around resourcing is dependent on the quality of the SRA. Furthermore, the amount of funding attached to each SRA depends upon its scope.

Resource allocation for the SRAs will occur within the current phases of the Budget cycle (see Annex for a more detailed account of the likely process). The ex ante part of the Budget cycle has the following key phases: strategic, resource allocation and approval, detailed decision-making, and production and presentation. The ex post process consists mainly of reporting and monitoring (annual reports, ownership, delivery issues). SRA networks require enhanced resource-allocation discussions within the Budget cycle framework.

SRA networks provide much better alignment with government strategic priorities than is currently the case, because they embed discussion of strategic priorities into the Budget cycle. SRA allocations, and trade-offs between SRAs, will be more transparent. The creation of SRA Ministers and SRA Committees provides a more coordinated approach to the allocation of resources for the achievement of strategic priorities. In time, SRA evaluation and reporting information required for SRA networks can be fed into the annual Budget cycle to inform resource allocation.

Commitment to the alignment of strategy and the Budget can occur independently of decisions about the level of resources to be allocated to each SRA. The appropriate volume and scope of resources allocated to SRAs is not addressed in this paper. That is a decision for Ministers. However, it should be stressed that the level of resources attached to SRAs will send signals about their relative importance. But if resources are marginal, or confined to new initiatives, there is a risk that SRA networks will not achieve the aim of refocusing resources and energies towards government strategic priorities.

Critical success factors

SRA networks will succeed in aligning public sector activities with government strategic priorities *only if* key elements of SRA networks function properly.

***SRA*s**

SRA^s must reflect high-level priorities. Pressure to increase the number of SRA^s beyond a manageable number will need to be resisted. Once the number of SRA^s increases beyond eight to ten, they become all-encompassing. The possibility of setting priorities across portfolios would be undermined. It would also result in too many networks. Some departments would find themselves contributing substantial outputs to several networks. While such a risk could be accommodated for one department, it becomes highly problematic if many departments have multiple links.

For networks to succeed, SRA^s must be:

- well specified (to guide decision-making)
- limited in number (so that effort and resource reallocation is focused on genuine strategic priorities)
- enduring over the medium term (to encourage capacity-building and the development of effective new initiatives)
- developed into measurable outcomes (so that progress can be assessed and the impact of different interventions can be compared).

SRA outcomes

A balance has to be maintained between prescription and flexibility, so that strategic focus is sharp but adjustment to changing exogenous factors is possible. SRA-outcome specification must conform to SMART criteria.

Budget process

SRA Ministers must be capable of and committed to reallocating resources to priority initiatives (even if that means drawing resources away from their individual portfolios). This requires that:

- the strategy cycle operates within Budget deadlines so that strategic priorities within SRA networks can be reflected in Budget decisions
- funding for evaluation/review is seen as an integral part of programme budgets and not a dispensable add-on
- the Budget process allows reallocation of resources across portfolios.

Information management

The effective and efficient management of information is critical to the success of SRA networks. Critical factors are that:

- SRA Ministers (and their support teams) receive and use information effectively
- there is public acceptance of the integration of information held in a number of agencies
- there are improvements in the application of common information standards (common data definitions, access and security protocols, etc.) and compatible technology
- the ‘right’ information is collected to enable outcome measurement (this has proved very difficult in information strategy work in the Justice sector). Good SRA-outcome specification is crucial in this context.

Capability

For SRA networks to succeed, some important capability will need to be built. Much of this capability would be required (to address current gaps) whether or not the SRA networks system is introduced. Of particular concern is capability that is not readily or cheaply available in New Zealand, in the following areas:

- management development (the overall pool of management talent needs to be enlarged, especially given the need for additional support to SRA Ministers and lead-agency chief executives)
- strategic policy development, research and analysis
- evaluation
- generic and specific information management.

Leadership and responsibility

The behaviour and characteristics of various players within SRA networks are crucial to their success.

Prime Minister

The SRA networks’ success depend on the Prime Minister’s commitment to ensuring that:

- SRAs meet high-quality standards
- SRA Ministers are selected, empowered and held accountable so that they have the ability, authority and incentives to deliver their SRAs.

SRA Ministers

SRA Ministers must have:

- the skills, motivation and incentives to manage their networks towards the achievement of outcomes
- access to the information and support required to fulfil their functions.

It is likely that the workload of SRA Ministers will increase because, in addition to their individual portfolios, they are also responsible for the SRA.

Network Ministers

Network Ministers must have:

- incentives to co-operate within the network by offering information and resources
- incentives to seek high-quality evaluation information about the outputs they purchase
- effective levers of control to incorporate Crown entities within SRA networks.

Lead agency

The lead policy agency within each SRA network must:

- develop the essential capabilities of network leadership, information management, programme evaluation, policy review, and strategic policy advice
- gain access to high-quality and timely information from its network – which requires the trust of Network Ministers and those agencies supplying the information
- be adequately resourced to provide high-quality support to the SRA Network Ministers.

Departments and Crown Entities

Departments and Crown entities contributing to each SRA network must:

- have incentives to contribute information and resources to the network
- develop capabilities in networking, relationship management, information gathering, and programme evaluation
- have funding adequate for delivering on their evaluation and networking requirements.

Annex: Resource allocation of SRAs within the budget cycle

Strategic phase (August to November)

During the strategic phase of the Budget cycle, Ministers collectively determine the Budget strategy objectives for the coming three years. In line with current practice, a group of senior Ministers ('gate-keeping Ministers') led by the Prime Minister discuss government strategic and fiscal priorities against the backdrop of the macro-economic and political outlooks. Cabinet identifies a limited number of strategic priorities it will focus on in the next three years. These priorities form the basis for SRAs. It is expected that the SRAs will endure over a three-year period. Cabinet will review rather than reinvent SRAs in the two out-years.

The SRA Committee submits a draft SRA statement for approval at *Premier House*. After *Premier House*, a formal Cabinet paper is prepared reflecting the decisions made; and Cabinet issues Budget parameters for each of the SRAs. The establishment of Budget parameters forces explicit trade-offs to be recognised between SRAs as well as between SRAs and other government activity. The SRA Committee decides on the preferred mix of interventions (SRA outputs) to achieve the given SRA within the Cabinet parameters.

Resource allocation phase (November to February)

In this phase the SRA Committee clearly identifies the outputs it requires which individual Network Ministers agree to purchase from their departments. SRA funding will be largely through SRA outputs provided by departments from within baselines. If a network department cannot fund a particular SRA output from within baseline, the current baseline change process is used to assess whether new initiative funding is appropriate. This sets a high test for resource allocation because it is expected that most SRA outputs can be provided from within baselines.

Draft outputs and departmental budgets are prepared for the forthcoming year and the two subsequent years, to ensure that SRAs have a three-year focus.

Decision-making phase (February – April)

The Budget Policy Statement published in February outlines government plans and priorities. SRA networks are consistent with the principle of fiscal constraint, as Ministers are expected to keep total expenses for each Vote within baselines for the three-year period. Departmental allocations for SRA outputs and non-SRA outputs established in this phase are reviewed to ensure that, combined, they remain within baseline; and trade-offs between SRAs are resolved.

Proposed Budget Initiatives are then reviewed against a government's overall strategy. After the House has debated the Finance and Expenditure Select Committee's (FEC) report on the Budget Policy Statement, Cabinet makes its final Budget decisions.

Production and presentation phase

In the production phase Budget decisions are bolted down. Ex ante Budget documentation is finalised, and the Budget Speech and press releases are prepared. On

Budget day the Minister of Finance presents to the House of Representatives the following documents covering the fiscal year beginning on 1 July:

- the first Appropriation (Estimates) Bill for the new fiscal year
- Budget speech
- Fiscal Strategy Report
- Budget Economic and Fiscal Update
- the Main (Budget) Estimates
- Departmental Forecast Reports (these are being reconsidered as part of the SSC's review of accountability documentation).

Over time, these could be supplemented with a SRA statement (which details the strategic priorities of government and allows for reporting against the priorities).

Passing the Appropriation Bill

The Fiscal Strategy Report, Budget Economic and Fiscal Update, the Estimates, and the proposed SRA statement are referred to FEC. FEC allocates Votes to select committees for examination of the Estimates. The Estimates are then presented to the House of Representatives and, when passed, become law with the assent of the Governor-General.

Ex ante documents finalised

When the ex ante Budget decisions (including Departmental Forecast Reports and Estimates) are finalised, SRA Committees confirm their individual SRA statements, and Public Service chief executives finalise their purchase agreements and performance agreements.

Monthly reporting

Departments report monthly to their Responsible Ministers and to the Treasury on financial performance.

Biannual reporting

Departments report to their Vote Ministers against departmental purchase agreements. Network departments report on the production of SRA outputs to their Network Minister (which is the same as their Vote Minister), and this report is forwarded to the SRA Minister.

SRA Ministers prepare December (half-year) SRA updates (DSRAU), reporting on progress towards SRA achievement and including any revised forecasts.

End-of-year reporting

At year end, departmental budgets and output delivery are reported in the departmental annual reports and in varying forms to the SSC, the Treasury, the Audit Department, and the Responsible Minister. Network departments report on the

provision of SRA outputs in their annual reports, and provide evaluation and monitoring information to the Network Minister.

SRA Ministers report progress against SRA statements, bearing in mind the triennial nature of SRAs. Annual review of SRAs allows SRA Committees to review the intervention mix and to reformulate this in the next Budget strategic phase.

