The Critical Role of Leadership in the New Zealand Public Sector  
- Why the Sector is Failing to Perform to its Potential

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PURPOSE

This paper provides a critical review of the leadership and performance of the New Zealand public sector – central government only, in the context of New Zealand’s steadily deteriorating economic performance and position compared with many other countries, particularly Australia, and the increasing competitive challenges to it.

It acknowledges a number of positive features but highlights major, sector-wide weaknesses, that need to be dealt with urgently and effectively.

The paper focuses primarily on the areas of weakness because of the potential for substantial economic and social benefits from fixing them (and the high cost of not), and recommends remedial actions.

CONCLUSIONS

∞ There are major weaknesses in capability and performance in the New Zealand public sector, particularly in the Public Service.

∞ They reflect: the lack of an integrated, coordinated and strategic, “whole of government” approach to important social and economic issues; the failure of political and official leaders to address a number of clear and serious systems deficiencies; their willingness to accept poor performance and results, in spite of the adverse impact on New Zealand’s economic performance and living standards; and insufficient openness and transparency about the sector’s performance and results.

∞ The weaknesses are evident in: inconsistent and sometimes manifestly inadequate leadership in the sector; a lack of attention to important organisation and systems issues; poor policy design and implementation and weak administrative and operational performance; unacceptable and costly performance failures; and, ultimately, poor results – especially in terms of the economy, social outcomes and living standards generally. The poor results seem to have led to less open and informative performance monitoring and communication.

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There are many capable people and good organisations in the public sector, performing to a good – sometimes excellent, standard. It is unfair to them, and all New Zealand citizens, that the major and systematic weaknesses have not been and are not being addressed. They have been clearly evident for some years now.

**CONTEXT**

The public sector has a vital role in the New Zealand community. It:

- has many powers
- develops and implements policy
- manages / controls some 40% of New Zealand’s GDP
- manages / operates a wide range of public services
- owns / operates a number of commercial activities
- manages critical incidents and crises

In terms of this role and the performance of the sector it is pertinent to focus on:

- the continuing failure of New Zealand’s leaders and policies to deal with the continuing deterioration in New Zealand’s economic performance and standards of living, compared with Australia and many other economies.
- the sharp increase in the competitive and other pressures facing New Zealand - e.g. China, India, international tax reform, sustainability, new international business strategies, biosecurity, trade negotiations, climate change, and its generally piecemeal and limited responses.
- the lack of effective leadership to address serious systemic weaknesses in the sector
- a preoccupation with political issues and objectives, at the expense of important economic and social objectives

To underline the seriousness of the poor economic performance:

- between 1960 and 1999 New Zealand’s growth in exports per capita was less than half (45%) Australia’s and only 41% of the OECD average rate of increase.
- over the same period New Zealand’s productivity growth performance was worse – only 40% of Australia’s and 25% of the OECD average.
- since the mid 1990s to 2004 New Zealand’s labour productivity performance has continued its relative deterioration compared to Australia’s (NZIER / OECD).
- From 1999, to 2006, Australia’s exports per capita increased 66% and New Zealand’s by only 36%.

As exports per capita and productivity are critical determinants of living standards these trends are particularly serious.
Some other points:

- New Zealand’s current account deficit at over 9% of GDP is amongst the largest in the OECD, and is about twice what might be sustainable.

- New Zealand’s net international investment position is one of the worst amongst developed economies. It continues to deteriorate, weakening the current account outlook.

- Better growth rates in several recent years primarily reflected abnormally high and unsustainable increases in terms of trade, net immigration and labour participation.

- New Zealand’s capital : labour ratio, 95% of Australia’s in the late 1970s, is now only some 70%, which has serious implications for future relative productivity improvement and incomes.

Clearly it is essential that New Zealand lifts its game – but where does the public sector sit in all of this?

A VIEW OF THE PUBLIC SECTOR

The Positives

The post 1987 major reforms in the New Zealand public sector were fundamental and pervasive. They had a very substantial positive impact through the development of a more efficient, effective, results oriented and accountable public sector. The more decentralized and targeted approach allowed greater scope for capable leaders and managers to innovate and improve performance.

Inevitably, there were aspects that required rework and / or further work but the benefits of the reforms were clearly very large.

There are also many very capable people in the public sector, performing to a high standard, and organisations that are achieving good and even excellent results, especially in the wider State Sector.

The Areas of Concern

Since the major reforms of the late 1980s – early 1990s there has been little further progress and in some respects things have gone backwards.

In its June 2002 report on State Sector organisations, including the Public Service, the State Sector Standards Board (SSSB) “highlighted areas of significant concern which continue to require serious attention”. These included:

- quality of leadership
- quality and effective use of performance management systems
- inadequate attention to training and development of staff
- lack of focus on succession planning and career development
- the need for a remuneration strategy
- weak orientation to “whole of government”
- emphasis on outputs at the expense of outcomes

Four years on there is no evidence of significant, sector-wide initiatives or improvement. There have been pockets of improvement, but no more than that.

Two more recent reports are of interest:

A Treasury Report (Blackmore) on aspects of public service performance (reported in NBR, 19 March 2004) concluded:

- “Managing for Outcomes” is part of a strongly worded State Services Commission (SSC) aspiration to improve the effectiveness of government expenditure.
- However, departments and agencies have managed to avoid many of the more onerous aspects of the new regime, according to an evaluation of the content and quality of the statements of intent prepared in the last financial year.
- Quoting Blackmore, “Departmental capacity to undertake meaningful organisational capability appraisal appears limited. Departments do not have a clear picture of their current state or future capability requirements, or access to common capability appraisal metrics”.
- Outcome indicators of performance measures are virtually non-existent in the majority of 2003/04 statements of intent.
- Identification of risk and risk management was very limited.
- At the moment departments tend to assert linkages to each others outcome sets, rather than to describe how collaboration or shared outcome contributions will work.
- SSC comment – we talk cooperation and coordination but don’t practice collaboration. The extent to which we have collaborated is despite the system, not because of it. Where it has happened is because determined professionals on the ground made it happen.

This assessment shows a serious situation.

Organisational capability is a critical issue. It is a major determinant of what can be achieved, to what standard and at what cost. Improving it is a vital part of overall performance improvement, but:

- departmental capacity to undertake meaningful organisational capability appraisal appears limited
- they don't have a clear picture of the current state (of their organisation) or of future capability requirements, or access to common capability appraisal metrics!

In addition:

- outcome indicators are virtually non-existent
• many of the more onerous aspects of “Managing for Outcomes” are avoided

• identification of risk and risk management, is very limited

The SSC comment is particularly relevant to my concerns – the systems are not working (“despite the system”) but, in some areas, individual initiative is successful.

The Ministry of Health recently completed a review – Report on the Current State of the Ministry of Health (13 December 2006 it’s Chief Executive recently changed). Because of the their significance, but in terms of the state of the Ministry and the public sector, I quote from the report’s conclusions at some length.

“Specific findings of note, relative to the Ministry’s current internal plans, are a need for the Ministry to:

• develop a strategic long-term plan for the organisation and health sector – noting that one does not currently exist;

• move toward an outcome focussed annual plan with much clearer links to an agreed strategic vision, outcome goals, key priorities and objectives – rather than the current plans which are predominantly process-task oriented;

• ensure that an internal annual plan for the Ministry is jointly agreed and owned by the Executive Management team, and that this includes engagement and consultation with the relevant key stakeholders – to address the current silo-directorate based and inward looking approach to plan development;

• incorporate a relevant key performance indicator target (“KPI”) framework within Ministry plans to enable measurement of progress towards intended outcomes;

• significantly strengthen performance management arrangements to ensure agreed plans are fully implemented and progress is routinely monitored internally, and not just at the time of quarterly external reports.”

“A range of opportunities for improvement within the Ministry’s people capability, organisational capability and infrastructural capability elements became evident:

• leadership – there is a need to develop a shared organisation wide vision and to achieve an outcomes-based culture – with shared longer-term goals and objectives, distinct from current practice which has tended to be more internally focussed and driven by a siloed individual directorate approach with a short-term process-based perspective;

• management – there is a need to establish an internal organisational performance management framework.

• experience and expertise – there is widespread acknowledgement of the experience and expertise that exists within the Ministry. The main challenges are to ensure that this experience and expertise is effectively led and managed to achieve the organisational wide vision, as well as to ensure that policy advise is both sound and practical to implement.
organisation culture – the Ministry tends to have a risk-averse culture and decision-making processes are typically slow and re-active.

"Some other findings are:

a need exists to develop a strategic relationship management approach, including increased collaboration and shared learning – both internally and externally – internally to mitigate the silo-based and individually-based management approach that currently dominates the Ministry, and externally to ensure all relevant determinants of health are effectively address through Ministry actions – as well as to effectively harness skills available in the sector;“

Responsiveness to key priorities and core responsibilities tends to be reactive, rather than proactive. There is hence a need to improve Ministry performance timeliness.

"Key opportunities for improvement are as follows:

introduction of a monthly performance reporting framework to monitor organisation-wide progress against plans – to enhance the soonest development of an ongoing performance-management based culture that reinforces the need for the organisation and directorates to fully own and deliver on agreed plans;

alignment of performance measures between internal plans, external plans, internal performance monitoring reports and external performance reports – to ensure that management remain fully focused on the key organisational goals;

proactive communication of performance in a “user-friendly” way – both internally and externally – including to: communicate to the wider sector and the public on how New Zealand compares internationally, what is being achieved to progress the health status for New Zealanders and to promote performance achievements.

This is a valuable and insightful report, on one of the public sector’s and New Zealand’s, largest organisations with a critical role in terms of the living standards of New Zealanders.

So the Ministry:

has no strategic plan and there is none for the Health Sector
is oriented to process tasks, not key priorities and objectives
has an inward looking, directorate – based silo approach
lacks key performance indicators, to enable measurement of progress
has weak performance management and orientation to plan targets
has a risk averse culture and decision making is slow and reactive

These are, obviously, serious weaknesses, but it is not a new organisation, its previous chief executive was in the role for a number of years and we have a “third term” government which has put considerable focus on the health sector. The weaknesses are not surprising though. They are, in many respects, consistent with the insights gained by the SSSB into various organisations (see its report on education for example) and from other sources.
I also note a recent Treasury report which states that there was an 8% fall in hospital productivity 2001-2004, compared to a 1% increase in the previous three years. While this is grounds for serious concern Treasury also found that only 25% of New Zealand’s 21 DHBs’ activities were actually measurable!

So, what is wrong?

**THE PROBLEMS IN THE PUBLIC SECTOR**

In my judgement – two important initial conclusions.

- there are serious weaknesses in the capability and / or willingness of some public sector leaders, officials and ministers, to lead and manage their responsibilities and organisations.

- important sector wide systems and processes – e.g. planning and goal setting, performance monitoring and management, staff training and development, performance improvement, consequence management, and the related central leadership and oversight, are inadequate – in terms of design and operation.

The root cause of this situation seems to be a lack of leadership, capability and commitment, to address these important issues, exacerbated by aversion to change and the risks involved and willingness to accept, even prefer, weak or poor performance rather than risk change.

The absence of a decisive political constituency for improvement is also relevant. This reflects, at least in part, the lack of openness and transparency on good performance indicators, although the frequent incidents of performance failure reported in the media are significant.

Where progress is being made it is generally being led by individual chief executives, using their own initiative and sometimes with support or encouragement from ministers. Where leadership is capable improvement is evident and performance reflects this.

These improvements highlight what could be achieved on a sector-wide basis.

Graham Scott’s comments in Public Management in New Zealand: Lessons and Challenges (2001) are pertinent:

"As an insider again, I saw weaknesses in some vital management processes, in the capability for policy making and the ability to implement new policies.”

"Some of the weaknesses existed in government-wide systems and some in particular organisations”.

Note the references to weaknesses in both “government-wide systems” and “particular organisations”. The Standards Board reached a similar conclusion.

"Departmental reviews showed that some of the departments that had been poorly managed before the reforms were still badly managed, years later”.
“... the best public management in New Zealand is demonstrably as good as it gets anywhere in the world. There are however numerous innovations that have begun with great promise, but that have not been followed through and some lie neglected. We have talked incessantly about some problems but left them unsolved, such as the identification and development of top managers”.

This remains a pertinent observation – much talk but so little progress!

There is much more that is relevant in Scott, and also in Schick, Logan and the State Sector Standards Board reports. Importantly, there is a strong sense of consistency in these critical comments.

A number of specific issues underpin the performance issue:

**Delegation and Performance**

A key feature of the 1980s/90s major reforms was the increase in the authority delegated to chief executives, especially in the Public Service. There were also major changes in the wider State Sector where the role of boards and directors became more significant, and often successful.

This created the opportunity for capable chief executives to lead and improve the performance of their organisations. Unfortunately, the key supporting systems, to ensure that the benefits were gained consistently on a sector-wide basis, were not developed or implemented, or were done on a limited and ineffective basis.

That, basically, remains the position and the absence of an effective systematic approach, particularly in the Public Service, to managing and improving performance is a fundamental and costly weakness.

It is notable that this has been the situation for quite a few years now and that the problem is widely recognised, but decisive steps have not been taken to remedy the position. That sends a signal on New Zealand’s approach to public sector performance - that good performance and performance improvement are not priorities for the sector’s leadership.

Why is a systematic sector-wide approach so important?

**Leadership**

Capable leadership, in all of its forms, is less about style and personality, though this has some relevance, and much more about learned techniques and methods and experience. Importantly, the required leadership capability is different from role to role and between levels in any organisation. A good organisation has the requisite, capable leadership at all levels.

The leader of an organisation, e.g. public service chief executive, must be able to lead that organisations – think strategically, set goals and objectives, develop a team, manage performance, achieve outcomes, plan, and so on. A key part of the role capability is “organisational leadership” – the knowledge, skills and experience, etc to develop and
improve the capability of the organisation to perform. For organisation leaders, which a chief executive is, this is an essential ability.

Ministers, at a different level and with a different role, need different leadership capabilities – particularly those to lead, guide and oversee chief executives and their performance.

Leadership capability varies considerably amongst public sector chief and other executives and amongst ministers, as it can do in any organisation. Some are experienced, talented and capable and others are less so. The variation is not surprising and partly reflects experience, including exposure to good training and development - and good leadership. This variation in capability is clearly evident in the variation in performance amongst public sector organisations. Some perform well, others less so and some clearly struggle.

In spite of the widespread concern e.g. Treasury and SSSB about the quality of public sector leadership and the need to improve it – to a more uniformly high standard, there has been little real response. The steps taken have been very small, in relation to the size and significance of the issue and there are still no effective, sector-wide systems or processes to achieve the required outcomes.

In the vital area of organisational leadership there is still a very wide variation in capability.

There is similar variance in the leadership capability of ministers, who are selected by a political process. Most come from backgrounds that gave little or no exposure to the requisite leadership skills for their present role, including organisational leadership and guiding struggling chief executives on their performance and on organisational development. Note that I am still referring to leadership from a technical perspective and not just some concept of personality or charisma.

Short, well focussed workshops for ministers, to outline, inform and remind could be very productive but the SSSB’s recommendation on this was not taken up.

A more substantial and effective, systematic approach to developing consistent, high capability amongst public sector leaders would improve the sector’s performance markedly. In organisation terms this would simply be reducing / removing unwanted variance in performance – a classic case for Six Sigma methodology.

There is a leadership development programme but it is too limited to be effective.

The problems caused by the variability of leadership partly reflect and are compounded by the weak approach to performance management, particularly in the public service.

**Performance Management**

Good performance management is critical for any organisation. It needs to be based on an agreed role description and performance objectives. It must entail regular formal review meetings (at least 2 per year) with a manager who is experienced and capable, at at least the organisation level of the person whose performance is being reviewed, and preferably a higher level. It must assess performance fairly and frankly against the agreed criteria, reaching an agreed outcome, or with a process to resolve differences.

The outcome must lead to consequences with good performance being rewarded, and vice versa. The outcomes should include an agreed training and development programme.
Where there are serious performance problems there must be personal counselling and an agreed development plan, which leads to sufficient improvement or exit from the role. The formal meetings should be complemented by regular informal meetings.

There is a performance management system but it is poorly designed and ineffective in managing the performance of public service senior executives.

This is evidenced by the poor performance of some individuals and organisations, over sustained periods, including the acceptance of poor performers continuing in their roles and the reappointment of some to new senior roles.

The system is more akin to a plan review, based on data collection and analysis than a personal performance review. The reviewers generally lack the experience in sufficiently senior roles, that would have allowed them to develop the necessary judgement and other skills needed to effectively review a chief executives performance. It is also questionable whether they have the required technical skills and knowledge for the role. Properly reviewing a persons performance is a difficult and demanding task, and unless it is done to a high standard the results will be poor, to the detriment of the employee, the organisation, the sector – and their outcomes. The results will also lack the robustness and credibility needed to support serious consequences for failure to perform, given the present legal framework – which is probably another reason for ongoing poor performances.

Thus, while operating on the basis of delegated authority the Public Service, in particular, lacks the complementary systems necessary to operate efficiently and effectively on that basis.

**Whole of Government Outcomes**

One consequence of this is an inadequate emphasis on and progress toward whole of government outcomes, even though this has been a priority for some years. In a good organisation, which operates in a number of divisions, each is led by a manager with delegated authority from the centre. Each manager will be judged on the basis of his / her divisional result, and the impact of their and its performance on the whole organisation. For example, a new group-wide IT system may be proposed. It may be advocated as being in the best interest of the whole, but often divisional managers will have discretion whether to adopt or not, as in the public sector. If opting out of the group solution turns out to be a bad decision their performance will be marked down accordingly.

In the public sector though, there is little evidence of any consequences from a failure to act beyond a narrow interest, and a great reluctance to mandate whole of government or best practice solutions – and to negotiate them is generally a slow, difficult and inefficient process.

The IT area is an excellent example, but there are others!

This is also a major issue for the sector as it frustrates the transfer and adoption of good / best practice, access to scale economies, common approaches to IT and other systems and the achievement of a credible, whole of government approach.
Organisational Development

Organisation development and performance is a key area for leadership accountability, but it is an area of particular weakness, especially in the public sector. Some organisations are making progress but many are not, and are not alert to the significance of the issue, particularly when the leader lacks the relevant knowledge and experience. In such circumstances the absence of a systematic sector-wide framework has serious consequences.

Policy Capability

A further important issue, also highlighted by Scott, is that of policy development and implementation capability. There are now grounds for concern about the New Zealand public sector’s policy capability. There seem to be numerous examples of policies that have been poorly designed and implemented in recent years and of ineffective administration. They get substantial coverage in the daily and business media and in question time in the House, are costly to business and others and can cause serious frustration in the community.

The lack of ready access to meaningful and reliable performance indicators exacerbates the position, and so does the perception of expenditure increases not matched by better outcomes (e.g. health, education and welfare).

Political and official public comment often seems more oriented to denying weakness or failure than frankness, which doesn’t help. Nor does the reluctance of officials to engage in and inform public debate on policy and other issues, as they used to.

An important related issue is the absence of any real sense or evidence of a sound strategic policy framework, either for social or economic policy. There are political agenda’s but nothing reflecting quality analysis, oriented to national objectives.

I will comment on two specific examples of what I see as poor policy.

Kyoto Treaty ratification was contentious but a political choice. Ratification was justified on a clear statement of what the implications would be for New Zealand, including the expectation of substantial economic benefits. The subsequent policy design and consultation process had some good features but it quickly became clear that the political framework for the policy was rather speculative and that the policy process lacked the capability to deal with the relevant complex economic, scientific and social issues. Not only was this disconcerting for those who collaborated with the process but involvement in it became an increasingly risky and costly exercise.

The ultimate result, after the policy had been implemented, was its collapse, as analysis errors and other problems emerged.

Yet this policy has major implications for important elements of the New Zealand economy – such as agriculture, fishing, forestry, mining, manufacturing, transport, and for the exports that the country is so dependent on.

The electricity policy position is broadly similar. Since the mid-1980s energy policy development has been contentious and often ill-founded. The focus has typically been on
the interests of the supply side rather than users, with the allocation of risk biased against users. There has been no obligation to supply, a lack of clarity about supplyside obligations and considerable opportunity for the supplyside to game or otherwise exploit the market. A real problem has been that the policy makers appear to have lacked understanding of the issues and their significance, and the capability to develop sound policy.

There is now less confidence amongst energy users that policy will take reasonable account of their interests and their significance for the New Zealand economy, in competition with more political objectives such as sustainability and the need to be active on climate change. The latter are important, but there needs to be a rigorous and balanced assessment of policy options, their economic, social and environmental impact, and sound policy design.

Sustainability is a key issue for New Zealand but it has been my view for some time now that the greatest threat to New Zealand’s sustainability is its poor and still deteriorating economic performance with its adverse impact on living standards and capability to manage and conserve the environment and address our social and international obligations.

The current state of the forestry sector reflects the policy problems. New Zealand, and many New Zealanders, have a large investment in exotic forests but it is difficult to see how this will be realised, given the major investments in plant and infrastructure, and economic energy supply needed for the valued added processing that is essential to get an economic return on the forests. The uncertain policy environment now for such investment is a serious problem.

Another feature of the current policy process is the reduced public engagement by officials in a constructive and informative way, outlining options and debating solutions. Nor are they now obliged to give “free and frank” advice to ministers, which I thought was one of the foundations of a Westminster style democracy!

**WHY IS PUBLIC SECTOR PERFORMANCE NOT A PRIORITY?**

Why is there so little focus on and concern with public sector performance, I suggest that it reflects the following:
Not many understand the issue, particularly in terms of voter numbers and electoral support. That there is an added cost to business and detriment to the economy and the New Zealand community only narrowly understood and generally not recognised as important, particularly as the costs are typically intangible and diffuse and remote from most individuals.

On the other hand managing for better performance in the public sector is not an obvious vote winner and also entails change and risk, which may be perceived negatively. The bottom line is that leadership is the only answer.

**SUMMARY REMARKS**

New Zealand already faces the challenge of being a small and relatively remote economy, in a world in which most other countries are growing faster, are more competitive where it counts and are outstripping New Zealand in terms of living standards.
It is also a world of increasing risks which need to be astutely assessed and responded to, such as climate change, conflict, environmental capacity, and so on.

We cannot afford to have those difficulties compounded by poor policy design, implementation and operation and an inefficient public sector. These problems not only erode the living standards of New Zealanders but they also undermine New Zealand's credibility internationally and its capacity to engage credibly and effectively with other nations. In particular, its relative economic decline compared with Australia, which shows no sign of reversing, will have increasingly significant consequences for that relationship.

The continuing relative decline in New Zealand’s economic position is unacceptable, because it is seriously increasing risk and undermining living standards.* Decisive action needs to be taken, particularly by government leaders. They are responsible for New Zealand. The focus needs to be on sound policy, oriented to longer term objectives and not short-term political objectives.

Business is, typically, getting on with business, in the interests of shareholders and other stakeholders, but there is some reluctance to invest in New Zealand. The policy and tax environment, the policy risk and attitude to business and the economic outlook are all significant negative influences. At the Big End of Town, there has been a real hollowing out, including a downgrading by multinationals of their presence in New Zealand – which has serious consequences.

The public sector is part of the problem, for reasons outlined above, but it should, and must be, a key part of the solution. Business has the discipline of markets. The public sector doesn’t, but does have the advantage of a single, dominant and powerful owner and an integrated structure. Most of the present problems reflect the unwillingness, or inability, to use this structure effectively.

There must be decisive action because the consequences of the ongoing relative decline, particularly compared to Australia, are becoming increasingly unattractive.

**RECOMMENDATIONS**

* An urgent review of the SSC performance management system and processes by a small expert working group, focusing on its effectiveness and potential for improvement, with preliminary results in 3 months. It should also recommend what further work needs to be done to make the necessary changes, with a view to starting implementation within 12 months.

* A more substantial review of the public sector focusing on its institutions, policies, systems and processes, and particularly its effectiveness, efficiency and weaknesses and what needs to be changed for it to achieve its potential. This group should be independently led, be expert and have a majority from outside the sector. It should

* See for example Slip Sliding Away – A Critical View of New Zealand's Economic Policies and Long Term Performance by Kerry McDonald; NZ Institute of Economic Research Annual Meeting Address, 2000 (www.strategicvalue.co.nz)
report within 12 months and the target should be agreed to change policies within 18 months. Key areas of attention:

- the role and performance of the SSC and Central Agencies, particularly in relation to leading performance improvement and ensuring better outcomes

- the quality of leadership and how to improve and sustain it

- the whole area of employee development and succession planning

- the achievement of more consistent, higher performance standards across the sector, including how to implement best practice and beneficial common solutions and a more effective orientation to whole of government outcomes

- improving the planning and reporting process, making it more effective and meaningful, including introducing a public reporting system based on meaningful KPIs

- how ministers interact with the sector, especially chief executives, and how to improve their effectiveness and contribution

- what does an efficient and efficient sector look like and how should it work