



Summary of our report

Medium-term planning in government departments: Four-year plans



In recent years, the Treasury, the State Services Commission, and the Department of the Prime Minister and Cabinet (the central agencies) have been working with government departments to improve their planning. Since 2011, government departments have been required each year to produce a four-year plan that sets out their medium-term strategy. Although these plans are just one element of a department's wider planning and performance management system, they have a role in signalling the medium-term outlook of individual departments, sectors, and the Government as a whole.

For this reason, we decided to review some four-year plans to see whether they appropriately set out a department's medium-term view of where it was heading, what it would look like in the future, and how it would get there. In doing so, we recognised that the practice of preparing four-year plans is still evolving.

Several elements of departments' preparation of their four-year plans were pleasing. There were well-defined preparation processes, the roles and responsibilities of those involved were identified, senior management was strongly involved, and communication between departments and the central agencies happened when needed.

The four-year plans we reviewed identified each department's strategic objectives, the services the department planned to deliver during the medium term to achieve those objectives, and how the department would organise and manage its people and resources to provide those services.

However, planning is worth doing only if plans are useful and used, and we found several areas where departments could improve their four-year plans. For instance:

- Some departments were unsure about the purpose of their four-year plan and who the intended audience was. As a result, plans were often written with an unclear purpose and with a variety of stakeholders in mind, which limited their usefulness.
- Preparing four-year plans was not always fully integrated into a department's broader strategic-planning process. This is important so that a four-year plan provides a complete and consistent view of the department's medium-term strategy that aligns with other strategic plans and policies.

Vital statistics:

- 30 pages
- Presented to Parliament on 07 March 2017
- Download from www.oag.govt.nz
- Contact: reports@oag.govt.nz

- We expected four-year plans to provide good information and discussion about the trade-offs a department intends to make. This did not always occur. For example, a department that identified funding shortfalls did not always consider how it would address these shortfalls. This made it difficult to understand and assess any trade-offs needed, such as changes to service levels.
- The guidance published by the Treasury and the State Services Commission makes clear that four-year plans should include financial information for all the Votes and appropriations administered by departments. However, there was little information in four-year plans on capital and asset management using this broader lens. For the departments we reviewed, departmental expenditure was only 21% of total Vote expenditure and departmental assets were only 29% of the total asset value of the department and the Crown entities they monitor.

Overall, our work showed that departments had variable forecasting practices that could be improved. Financial forecasting is an important component of effective medium-term planning. It allows a department to better understand its risks and uncertainties, and the steps it needs to take to mitigate these and realise opportunities.

Some departments had quite sophisticated forecasting tools. These departments could perform financial modelling and test forecasts against a range of assumptions and scenarios, with the information flowing through to the four-year plan. Other practices were less well developed, and forecasting practices were not well integrated into a department's broader planning processes.

Good forecasting relies heavily on the quality of the underlying information, the reasonableness of the assumptions used, and maintaining this information so that changes can be identified and managed. Inadequate forecasting practices can result in plans that do not provide a good basis for decision-making and accountability. This can contribute to inefficient use of resources, cost over-runs, poor service delivery, and poor resource allocation.

Experience within government departments in medium-term planning is developing. This means it is sensible for departments, with the support of the central agencies, to focus initially on preparing robust plans for departments. The Treasury has recently introduced long-term investment plans, which are expected to incorporate capital and asset management intentions. In our view, medium-term plans should better incorporate information about capital and asset management intentions and other significant matters from Votes, because of their effect on the Government's financial management and on the services to be delivered to the public.

Medium- to long-term planning is good practice in a well-developed public management system, and the introduction of four-year plans is consistent with that good practice. However, the central agencies and departments need to do more work to achieve a consistently good standard of four-year plans throughout government.

We have included suggestions about how four-year plans can be improved, which we hope will have value to departments and the central agencies so these plans can become increasingly useful and used.