Review of the Effectiveness of the Environmental Protection Authority

Overview Report

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This report may be cited as:
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Foreword

The Environmental Protection Authority (EPA) plays a central role in the management of New Zealand’s environmental and natural resources. It has a broad remit that includes: administering applications for major infrastructure projects; regulating the use of hazardous substances and new organisms; administering New Zealand’s Emissions Trading Scheme; and managing the environmental effects in New Zealand’s Exclusive Economic Zone.

The Ministry for the Environment (the Ministry) works closely with the EPA to support it to deliver these functions, and more broadly as a key partner to ensure environmental stewardship for a prosperous New Zealand. We are also the agency responsible for monitoring the EPA’s performance on behalf of the Minister for the Environment.

This three-year review, mandated by Cabinet in 2011 at the time the EPA was established, is our first review of the EPA’s performance. In addition to the Ministry’s assessments, the analysis has included an EPA self-review, an independent review applying the Performance Improvement Framework approach, and an assessment of the EPA’s fiscal sustainability.

As a first review, we see this document as not only providing an assessment of the EPA’s past and current performance, but also helping to set the direction and expectations for future performance.

The review shows that, in its first three years of operation, the EPA has worked positively to deliver its statutory functions within the legislated timeframes and within its appropriated budgets. This is a significant achievement given the variety of responsibilities the EPA has and the high profile (often contentious) nature of the decisions it is required to make.

The review makes 13 recommendations. These recommendations are directed at both the EPA and the Ministry, and will support the EPA in being an effective and fit-for-purpose regulator. Among those recommendations, I see the following three as priorities:

- improving the EPA’s financial capability and understanding of the financial resources it requires over the medium-term
- transitioning the organisation’s focus from establishment and operational targets, to a more future-focused agenda, and
- ensuring that the EPA’s operating model is capable of managing shifting demand for resources, while sustainably providing quality services to its clients.

I would like to acknowledge the positive and open contribution made by the EPA Board and staff to this review, and the input from Sue Suckling and Jenn Bestwick acting as independent reviewers. The EPA Board has acknowledged and already taken positive steps towards implementing many of the recommendations. The Ministry looks forward to continuing the constructive relationship and working together to prioritise and implement the review recommendations.

Dr Paul Reynolds
Chief Executive Officer, 31st March 2015
Executive summary

Context
This report summarises the findings of the 2014 Review of the Effectiveness of the Environmental Protection Authority (EPA). The report synthesises the findings of the two external reviewers, and provides the Ministry for the Environment’s (the Ministry) perspective on the performance of the EPA in its first three years of operation.

The report also provides the Ministry’s view on the areas the EPA should now focus on to become even more effective, and suggests next steps for both the EPA and the Ministry.

The Review focused on two components:
- an evaluation of the effectiveness and efficiency of the EPA, including the EPA’s governance and the role of the Māori Advisory Committee (Ngā Kaihautū Tikanga Taiao)
- a review of the fiscal sustainability of the EPA, including a high-level assessment of its operational efficiency and the impact of this on Crown funding needs, and an evaluation of its cost recovery practices.

Findings
The EPA plays a critical role in managing New Zealand’s environmental resources. A challenge faced by the EPA is that it is a small entity with large expectations placed on it.

Despite this challenge, in its first three years of operation the EPA has delivered its statutory functions within the legislated timeframes and within its appropriated budgets. This is a significant achievement given the complexity, diversity, and in some cases newness, of the regulatory processes it must administer. During this time, the EPA has necessarily (and appropriately) been focused on establishing and implementing processes that enable it to deliver robust and objective decisions within legislated timeframes.

While the EPA’s operating approach has been appropriate for its ‘establishment phase’, the Review has identified that a step-change is required for the EPA to meet its objective of being a world-leading environmental regulator, and being able to continue to deliver its regulatory services. While our expectation is that the EPA will first look at whether it can extract greater value from its current funding, we consider it likely that additional investment will be required in the long term for the EPA to achieve this step-change.

The Review has highlighted shortcomings in the EPA’s financial systems and strategic planning, which has made it difficult to draw conclusions about the EPA’s long-term fiscal sustainability. The EPA has already begun working with the Ministry to improve the financial information available.

To continue to operate with the confidence of the public, applicants, and the Government, the EPA must ensure transparency, quality, efficiency, consistency, and independence of the processes it implements and the decisions it makes. Achieving this fully and consistently in the medium term will require:
- the Board and management of the EPA to develop a more strategic, future-focused approach
• the implementation of an operating model capable of managing shifting demand for resources, while sustainably providing quality services to its clients. In particular:
  – moving to a financial planning process that applies a longer time horizon
  – developing a flexible operating model that enables the EPA to access the technical capability it requires at certain times while maintaining core capability, and to manage down current levels of staff turnover
  – taking opportunities for shared services with other government departments and Crown entities where appropriate
• the Ministry and the EPA to work jointly to identify and address legislative or regulatory impediments to operational effectiveness. This may, for example, include harmonisation across the EPA’s regulatory regimes to improve consistency of decision-making and cost-recovery practices, and to better enable the sharing of resources between the various EPA functions
• the EPA to develop a better understanding of its own effectiveness, and the contribution that its decisions make to the wider functioning of the environmental system
• the EPA, with support from the Ministry, to develop a better understanding of the financial resources it requires over a four-year period, including trade-offs and the consequences if resources need to be prioritised.

Next steps
Both the Ministry and the EPA have a role to play in implementing the recommendations of the Review. We consider the next steps are for:
• the EPA to prioritise and plan to implement the Review recommendations, with the Ministry providing support based on its experience with four-year planning processes and organisational change
• the Ministry and the EPA to continue the work underway to understand the EPA’s funding requirements and ensure the EPA is considered by Treasury to be “investment ready” (ie, focusing on results, managing current expenditure and future pressures, identifying efficiency savings and ways to better deliver their services more effectively, and contributing to bettering the system through cross-government initiatives)
• the Ministry and EPA to work together to provide Ministers with advice on amendments to the cost recovery regime, and to progress the changes that do not require Ministerial agreement
• the Ministry and the EPA to undertake further work to identify and address legislative or regulatory impediments to operational effectiveness, including further work to understand whether greater harmonisation of the EPA’s regulatory regimes would support improved operational effectiveness
• the Ministry to review our monitoring of the EPA, in consultation with the EPA and the Minister for the Environment
• the Ministry to support the Minister in his role, in particular reflecting the findings of the Review in the annual letter of expectations and ensuring the EPA Board has the necessary skills and experience.

The EPA Board is supportive of the tenor of the recommendations in this report. The Ministry acknowledges that the EPA Board has recognised the challenges ahead of it, and is already taking positive steps towards implementing several of the Review’s recommendations.
1 Context

The Ministry has undertaken a review (the Review) of the Environmental Protection Authority (EPA). The Review was mandated by Cabinet, who directed the Ministry to review the effectiveness of the EPA three years after it becomes operational.

The Review comprised of two components:

- an evaluation of the effectiveness and efficiency of the EPA, including the EPA’s governance and the role of the Māori Advisory Committee (Ngā Kaihautū Tikanga Taiao)
  - this component applied the Performance Improvement Framework (PIF) approach outside the formal PIF process, and included the EPA undertaking a self-review and an external reviewer providing an evaluation of the EPA’s effectiveness
- a review of the fiscal sustainability of the EPA, including a high-level assessment of its operational efficiency and the impact of this on Crown funding needs, and an evaluation of its cost recovery practices.

This document draws together the findings of the two components (as set out in the four attached reports) and provides the Ministry’s view of the effectiveness of the EPA in its first three years of operation.

Figure 1 provides an overview of how the component reports fit together.

**Figure 1:** Overview of the EPA Review

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**Overview report**

- **Review of effectiveness and efficiency**
  - EPA self-review
  - External reviewer’s assessment

- **Fiscal sustainability**
  - Baseline review
  - Cost recovery practices

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**Structure of this report**

This report is structured as follows:

- Section 1 provides an overview of the Review, the EPA and the Ministry’s role working with the EPA
- Section 2 sets out a framework for assessing the EPA’s effectiveness, provides our view on how effective the EPA has been in its first three years of operation, and identifies areas
where we believe the EPA will need to prioritise its efforts to ensure it meets performance expectations in the future

- Section 3 summarises the recommendations received through the component reports, and the Ministry’s commentary on these
- Section 4 outlines a series of next steps in response to the Review findings

Background on the EPA

The EPA is a Crown agent, established under the Environmental Protection Authority Act 2011, to be New Zealand’s single national-level environmental regulator. The Act provides the objective of the EPA is to undertake its functions in a way that:

- contributes to the efficient, effective, and transparent management of New Zealand’s environment and natural and physical resources
- enables New Zealand to meet its international obligations.

The anticipated benefits in establishing the EPA were:

- greater central government direction and consistency in managing and regulating the environment
- consolidation of regulatory and technical skills
- building on synergies between similar functions and powers
- certainty of process for natural resource users and applicants through clarifying responsibilities.

The EPA currently has approximately 180 employees. It is part-funded through Crown funding of approximately $21.3 million per year, with additional revenue coming from cost recovery of services (this varies annually but is currently approximately $11 million per year).

The EPA has duties and functions under various environmental Acts, focused around decision-making, compliance and administration. Its main activities are summarised in the EPA self-review as being:

- regulation of pesticides, dangerous goods, household chemicals and other hazardous substances; ozone-depleting substances, certain chemicals and hazardous waste controlled by international environmental agreements; new organisms including genetically modified organisms
- regulation of certain activities within the Exclusive Economic Zone (EEZ) and Continental Shelf, for example the environmental effects of oil, gas or mineral production
- administration of nationally significant proposals (NSP) under the Resource Management Act 1991 (RMA)
- administration of the New Zealand Emissions Trading Scheme (ETS) and the New Zealand Emission Unit Register (NZEUR)
- advising the Minister and providing technical advice to the Government and Crown entities on any matter related to its functions under an environmental Act.

Many of the EPA’s duties and functions are of high public interest, with stakeholders often holding strong and conflicting views on what activities should be allowed. Examples include:
- granting or declining marine consents to undertake offshore oil exploration or seabed mining
- granting or declining applications to develop and/or release new organisms in New Zealand
- providing administrative support to boards of inquiry that are responsible for decisions about nationally significant proposals.

In addition, the EPA provides services to stakeholders from sole traders to significant multinational organisations. It faces the ongoing challenge of ensuring effective (and meaningful) engagement to both meet legislative requirements and provide legitimacy to the decision-making process.

**The Ministry’s role**

The Ministry works with the EPA in two ways. First, the Ministry recognises the EPA as a key partner agency who we must work with to provide ongoing environmental stewardship. This requires the two organisations to work together to identify and develop approaches to manage natural resources and impacts on the environment, recognising the different knowledge and skills each organisation has.

The second way the Ministry works with the EPA is on behalf of the Minister as the monitoring agency. This includes supporting the Minister to fulfil his or her statutory duties (for example, appointments to the EPA Board), and helping the EPA report on organisational performance.
2 The EPA’s effectiveness

Context
This section provides the Ministry’s assessment of the EPA’s effectiveness. Our views are based on the findings of the various component reports, as well as our own experience and observations. As discussed below, we have used the Performance Improvement Framework (PIF) six dimensions of system performance¹ to frame our assessment.

Our expectations
As the agency responsible for monitoring the EPA’s performance, our expectations for its first three years of operation have been focused on the successful establishment, integration, and performance of core functions within budgetary limits.

Establishment demanded the EPA take a short-term focus to operationalise decision making processes and allow regulatory systems to function, without ‘dropping the ball’. Our performance expectations for the next three years will be adjusted to reflect the need for the EPA to make a step-change from establishment to a more strategic operating approach. Consequently, our expectations will be focused on the EPA’s progress in delivering efficient, effective, and transparent management of those aspects of New Zealand’s environment and natural and physical resources for which it is responsible.

Defining effectiveness
The Ministry defines an effective EPA as being an organisation that is delivering its core business (ie, legislated functions) while maintaining and improving capability for the future.

We have used the PIF six dimensions of system performance (as detailed in table 1) to help organise our assessment of the EPA’s effectiveness and to group themes emerging from the component reports. Using the PIF six dimensions framework we have also identified key desired behaviours and signposts of regulatory effectiveness.

Table 1 provides more detail on the types of behaviours we would expect from a high-performing regulator and appendix A provides further information on the links to system performance. While the signposts and desired behaviours have been developed during the review process (so will be new to the EPA in this form), some of the measures, or components of some of the measures, have previously been communicated to the EPA in the letters of expectations sent from the Minister to the Board (denoted by an * in Table 1).

These signposts and desired behaviours are expectations of a regulator with best practice operating performance. We would expect to see the EPA, over time, demonstrating strength or improvement in all of these desired behaviours.

¹ http://www.ssc.govt.nz/pif-six-dimensions
## Table 1: Signposts / desired behaviours to evaluate the effectiveness of the EPA (based on the PIF six dimensions of system performance)

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<th>Dimension</th>
<th>Signposts / desired behaviours</th>
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| Results            | • The EPA understands and measures:  
|                    |   − how it contributes to the Government’s priorities*  
|                    |   − how it makes a difference and the impact this has on NZ (ie, effectiveness; the results being achieved)*  
|                    |   − the efficiency of its operations.  
|                    |   • The EPA has robust, transparent and auditable processes that support its independence as a regulator, are easily understood by stakeholders, and can withstand intense public scrutiny.* |
| Strategy and role  | • The EPA understands how its regulatory role contributes to an effective and efficient environmental management system.*  
|                    | • The EPA has a future-focused strategy that clearly articulates its purpose and vision, and proposes how it will assess its strategic performance.  
|                    | • The EPA’s operating model supports achievement of the strategy, consolidates regulatory and technical skills, and builds on synergies between similar functions and powers.  
|                    | • The EPA effectively engages with Ministers, while recognising its independence as a Crown agent. |
| Internal leadership| • Decisions are being made at appropriate levels within the EPA and the different parts of management are focused on appropriate activities (eg, Board sets strategy, Executive Leadership Team run the business).  
|                    | • The EPA’s expected values, behaviour and culture are clearly articulated and embedded.  
|                    | • The EPA’s operating model ensures it has a core capability of staff, and supports the retention and development of staff. |
| Working with others| • The EPA has a clear strategy for working with other agencies, recognising their role in the environmental management system and helping ensure the system is as effective and efficient as possible.*  
|                    | • The EPA shows leadership in the sector, taking ownership for sector results where appropriate, and seeking to influence others to pursue changes that are outside its own mandate.*  
|                    | • The EPA appropriately recognises and supports the needs of the Minister, applicants, submitters and the general public, while maintaining its integrity/independence as a regulator.* |
| Improving delivery | • The EPA understands its cost drivers and how these impact on its own effectiveness and efficiency as well as that of the environmental management system.  
|                    | • The EPA has a culture of reflection and learning, embedding lessons and continuously improving its processes and practices, and consequently the effectiveness and efficiency of the system.*  
|                    | • The EPA is continuously identifying and implementing improvements (ie, efficiency and effectiveness).  
|                    | • The EPA uses the hard and soft information it collects to effectively contribute to policy discussions.* |
| Finance and resources | • The EPA has appropriate systems in place that support the delivery of its core business now and over the four year excellence horizon.  
|                     | • The EPA’s asset, information and system requirements are understood and there are plans for maintaining and developing these.  
|                     | • The EPA undertakes robust four year financial forecasting which means it can effectively engage in discussions on prioritising financial resources, including potential trade-offs and the consequences of these.  
|                     | • The EPA’s systems and processes for assessing risk are transparent, resulting in Ministers, stakeholders and the general public maintaining confidence in the organisation. |

* Previously included, in whole or in part, in a Letter of Expectations from the Minister for the Environment to the EPA.
Ministry’s view of the EPA’s effectiveness

Overall assessment

The Review has identified the EPA as having the following strengths:

- there is a good depth of specialist knowledge in some areas (eg, HSNO) – this needs to be retained
- it has experienced senior management staff
- it knows its core business from an operational perspective
- HSNO and nationally significant proposal application assessments are generally done well (it is too early to assess the marine consent processes)
- it engages well with others and is good at relationship management
- in particular, the EPA is recognised for its engagement with Māori
- the EPA engages well with the Minister’s office
- it has performed well in delivering the climate change/ETS function
- it has delivered/managed its work programme within its appropriations during its first three years.

The Ministry recognises the EPA has faced a number of challenges in its first three years of operation as a result of bringing together functions and people from three organisations and from across several pieces of legislation. We consider the EPA’s current operational / transactional focus has enabled it to make decisions within statutory timeframes and to support others in making decisions for nationally significant proposals. However the Review has also highlighted that maintaining the status quo will not be sufficient for the Government to be assured that the EPA’s ongoing functions are optimally efficient, effective, and transparent in managing New Zealand’s environment and natural and physical resources.

We note the external reviewer’s comment that “in its decision making areas, if a change of approach is not now adopted, the EPA risks becoming a bureaucratic process-driven regulator which is precautionary in delivering its regulation because it isn’t accessing the best expertise, ensuring the excellence in its operational processes, nor does it have the right structural arrangement in its legislation”.

We agree that the EPA will need to make a step-change in its approach to be more strategic, and acknowledge that this is challenging for any organisation, particularly while maintaining high standards of delivery of core operations. The Ministry is committed to supporting the EPA to make the changes required.

Results dimension

This dimension includes Government priorities; core business effectiveness; and core business efficiency elements of the PIF approach.

The Review has revealed that the EPA has a good understanding of basic process efficiency at an operational level (eg, the time required to make a particular decision). However, it has limited information/evidence to help it measure how effectively it is implementing the regulatory regimes it is responsible for, nor to assess the overall contribution it is making to the wider environmental management system.
This assessment is not unexpected and is, at least in part, a consequence of the EPA only recently being established. During this time it has had to bring together a range of functions and people, as well as having to take on new functions, in a complex and contentious operating environment.

It is understandable that, to date, there has been a focus on developing and implementing processes, rather than assessing the EPA’s effectiveness. However, looking ahead we expect the EPA to place greater emphasis on understanding the impact that its processes, activities and decisions are having. This should begin with:

- the EPA developing a clearer understanding of how its core business contributes to achieving the Government’s priorities and the wider environmental management system, and
- continued refinement of robust, transparent and auditable processes that can be applied consistently across the EPA’s decision making activities.

We anticipate there will be a role for the Ministry in helping the EPA achieve this expectation.

**Strategy and role dimension**

*This dimension includes the purpose, vision and strategy; structure, roles and responsibilities; and engagement with Ministers elements of the PIF approach.*

**Organisational strategy**

In February 2014, the EPA Board adopted the aspiration of becoming a “world leading environmental regulator”.

We note that the EPA is already undertaking work to ensure its planning extends beyond the immediate term, and that its actions are aligned with its longer-term aspiration. In recent years the Ministry has been through a similar process to update our strategic direction. We continue to refine our strategy, most recently through work to refresh our medium-term outcomes and associated aspirational targets. We encourage the EPA to maintain a dialogue with the Ministry as it continues to refine its strategic direction, and likewise the Ministry will share its thinking on its own outcomes and targets as they are developed. This will provide an opportunity for the EPA to learn from the Ministry’s approach, as well as, where appropriate, to align our objectives for the broader environmental management system.

While international recognition is aspirational, our view is that the focus should be squarely on ensuring it is delivering the best service for New Zealand in the first instance. This will be demanding in the New Zealand context which requires the management of a large natural resource base with:

- a limited pool of technical expertise
- a largely devolved system with many actors and high expectations of participation
- many unique biophysical characteristics to preserve
- accelerating rates of technology and innovation that create new opportunities and risks.

A more strategic approach by the EPA Board and management will ensure that the organisation has a clear view about the sort of organisation it needs to be, and how to drive organisational development to achieve this. A clear vision will assist the EPA to reach and maintain a steady state of excellence, meaning that the EPA will always have access to the
expertise necessary to deliver quality services, and is able to anticipate changes and issues before they arise (particularly in the compliance and enforcement space).

As a small agency with a wide-ranging legislative mandate the EPA faces a difficult challenge to balance the resources it needs. The challenge is exacerbated by the differing regulatory processes it must apply, and the fact that its work is largely application-driven. The EPA must anticipate its pipeline of application work and make constant judgements about what resources it needs day-to-day.

The EPA must also make a raft of other judgements that may impact on it having the expertise necessary to carry out its functions and protect the public interest by anticipating issues before they arise. For example, the EPA must decide how much it retains expertise to keep up with international developments, how much advice it offers decision makers and how much it leaves them to figure things out, how much compliance and enforcement work it might do, and how much pro-active work it might do with other agencies (for example, Worksafe).

A clear vision of what is required to achieve organisational excellence will assist the EPA to make the judgement calls it must make, and will mitigate against any risk of impaired decision quality and increasing costs.

**Operating model**

A key recommendation from the external review is that the EPA needs to develop an operating model that allows it to be more responsive to fluctuating demand for its services. In particular, gaining a better understanding of the current and upcoming work flows, as well as considering how best to distribute and retain resources across the organisation to ensure capability is maintained.

Identifying and implementing an optimal operating model is a challenge for any organisation. The challenge for the Executive Leadership Team (ELT), and particularly the Chief Executive, will be making decisions on operational issues such as how to distribute resources across the EPA to best meet the needs of the organisation. We expect this will require the EPA to:

- make decisions about the proportion of contract/fixed term to permanent staff it retains and to explore new options for retaining skills in-house or buying these in as needed (eg, through having panel agreements in place)
- make decisions about the proportion of resources that should be applied to developing and implementing the EPA’s strategy vs delivering the day-to-day business (ie, working on the business vs working in the business)
- to gain a more detailed understanding about the way it delivers services (eg, decision making processes across different functions) so it can identify where efficiencies might be gained and skills might be transferable.

**Opportunities for shared services**

To better manage fluctuating demand for services, there is merit in the EPA considering how it can further develop and leverage its working relationships with other regulators and government agencies (including: WorkSafe, Ministry for Primary Industries, New Zealand Customs, local authorities and Maritime NZ).

This is already happening to a limited extent, with the EPA and Ministry currently jointly funding and sharing an auditor position, but further work should be undertaken to assess the feasibility of shared services models with some of these regulatory partners, and further
sharing with the Ministry – this includes exploring opportunities for shared services for the corporate functions as well as for supporting delivery of its functions.

**Internal leadership dimension**

*This dimension includes the leadership and governance; values, behaviour and culture; leadership and workforce development; management of people performance; and engagement with staff elements of the PIF approach.*

**Values and behaviours**

We are aware the EPA has developed a set of expected values and behaviours and we are advised through performance reporting that these have been embedded within the organisation. It is difficult to assess the internal leadership of the EPA from outside the organisation, but we make three observations about internal leadership based on the information available for this review:

- Staff turnover is relatively high (overall turnover was 17.5 per cent in the last financial year and turnover of technical staff was 25.5 per cent). This seems counter to an organisation with a shared culture and strong buy-in to organisational values and behaviours. We recognise other factors could also be contributing to issues with staff retention.

- The EPA self-review is at odds with the findings of the external review with regard to the cohesive nature of the Executive Leadership Team (ELT). While the self-review suggests that the cohesive nature of the ELT is an area where the EPA stands out, the external review concludes that the ELT’s aspirations for the organisation are not cohesive.

- The external review of the EPA’s effectiveness questions the Board’s current role in making operational decisions, and recommends that it instead focuses on the strategic leadership of the EPA.

**The role of the EPA Board**

We consider that the Board should prioritise identifying the changes it needs to make to implement the recommendations of the Review. In particular, we suggest the Board needs to provide leadership that results in:

- a shift in focus from operational to strategic matters

- a clear understanding of how the Board will separate its governance and decision-making roles (ie, role in decision-making committees), as well as the role it intends to take in operational matters

- the Chief Executive and the EPA’s leadership team improving the operating model to optimise the workload, ensuring it has access to the required capability and a better understanding of the upcoming flow of applications

- the costs of the decision-making process being better understood, areas for efficiency savings identified, and any policy changes required discussed with the Ministry.

**Cohesiveness of the Executive Leadership Team**

As noted above, the reports provide mixed views on the cohesiveness of the EPA’s ELT. The EPA self-review suggests that the cohesive nature of the ELT is an area of strength, while the external review concludes that the ELT’s aspirations for the organisation are not cohesive.
The EPA’s ELT will need to take a cohesive approach and work with the Board if the recommendations of this review are to be effectively implemented. The mixed observations suggest that there are positive aspects to the EPA’s internal leadership, but also potentially areas for further development.

This is an area in which the Ministry will seek to improve its understanding as part of its regular performance monitoring of the EPA, and we encourage the EPA to maintain an open dialogue with the Ministry about any issues they are facing.

**Working with others dimension**

*This dimension includes the sector contribution; collaboration and partnerships with stakeholders; and experiences of the public elements of the PIF approach.*

Feedback gathered during the Review supports the EPA’s own view (evidenced in its performance reports), and that of the Productivity Commission, that the EPA has been working effectively with Māori. We are also aware the EPA has been making a greater effort to work with industry and other stakeholders, particularly in the EEZ and hazardous substances areas.

Similarly, we are aware the joint-agency arrangements for oversight and coordination of the Emissions Trading Scheme (ETS) are considered to be very effective.

However, the EPA will continue to face tension between running robust and transparent decision-making processes, and supporting submitters and applicants to meet their needs. As such, we consider this to be an area that will continue to require attention from the EPA, and potentially some changes to practice. We recommend the EPA consider how the successful networks and processes developed to support Māori engagement and cross-agency ETS coordination could be adapted and applied to different decision-making processes and other stakeholder groups.

**Improving delivery dimension**

*This dimension includes the review; improving efficiency and effectiveness; and regulatory stewardship elements of the PIF approach.*

**Better understanding effectiveness and efficiency**

The EPA has been focused on ensuring it is capable of processing applications and making decisions within legislated timeframes. However, the Review has highlighted to us that the EPA has only a limited understanding of its cost drivers and how these impact on its own effectiveness and efficiency, or that of the wider system. The Fiscal Review notes that while the EPA has carried out benchmarking of its administrative support services for the past two years, it has not yet done so in detail for its operational work areas. We appreciate the challenges in finding suitable organisations against which to carry out operational benchmarking, but consider that such an exercise would help the EPA better understand its cost drivers and the impact these have.

Feedback from applicants has indicated there is some dissatisfaction with the EPA underestimating the cost of hearings and sending unexpected invoices for further costs. As part of improving its understanding of its cost drivers and efficiencies, we consider that the EPA needs to improve its processes for estimating the cost of hearings, and for keeping the cost of hearings reasonable.
We understand the EPA does spend time considering the lessons from each decision-making process (ie, each Board of Inquiry decision). However, we consider there is scope for the EPA to embed a stronger culture of learning and sharing experiences across its different work areas. An increased understanding of effectiveness and efficiency will enable the EPA to identify opportunities for cost savings in service delivery, and help it to identify where to prioritise resources.

**Finance and resources dimension**

*This dimension includes the asset management; information management; financial management; and risk management elements of the PIF approach.*

**Financial planning**

The Ministry recognises the EPA has delivered/managed its work programme within its appropriations during its first three years. The EPA had a budget surplus of $1.2 million for the 2011/12 financial year and $1.3 million for 2012/13. Additionally, it was agreed the EPA could have a budget deficit of $2 million for the 2013/14 financial year when the final deficit for the year was $1.1 million. The EPA received an additional cash injection for the 2014/15 financial year to assist with the costs of implementing the Exclusive Economic Zone (EEZ) function (there was no funding for the EEZ function prior to this, and there is still no baseline funding).

However, through this Review the Ministry has become aware of significant deficiencies with the EPA’s financial systems and planning. This has made it difficult to draw conclusions about the EPA’s long-term fiscal sustainability.

We consider the EPA’s financial planning requires urgent attention and have already taken steps to improve the information provided for the four year plan process. Providing this new information will be the first step in ensuring the EPA can engage in meaningful conversations about its budget and priorities.

We are aware a new Financial Management Information System (FMIS) is being developed and implemented. This is expected to make it easier for managers to complete their financial responsibilities including managing their contract spend, planning and budgeting. The new system is also expected to improve the EPA’s reporting capability. As the monitoring agency, we will be expecting the EPA to provide better medium- and longer-term planning and financial information so we can better understand its progress and highlight potential funding risks and trade-off decisions. This includes four year financial forecasts, breakdowns of how the Crown appropriation and non-Crown funding is being spent, and more detailed sensitivity analysis on key performance drivers such as application flow.

The Ministry will continue to work closely with the EPA to overcome the existing information deficiencies. This work includes:

- confirming the EPA’s Crown funding requirements for the 2015/16 financial year and helping the EPA to become ‘investment ready’ for future year
- the Ministry and the EPA working together to assess the cost-recovery regimes in place and make any desirable changes.
**Investment in system upgrades and maintenance**

Over the past three years the EPA has invested significantly to develop a new Emissions Unit Register and is nearing the completion of a new financial management system.

Outside of these investments, the review identified that there has been limited planning and development of systems to support the EPA in delivering its core business (eg, the systems for processing applications in an efficient manner). Such systems are central for the efficient and effective delivery of the EPA’s core business and we will be encouraging the EPA to be more proactive in planning both the timing and funding of new systems and system upgrades in the future.

**Cost recovery practices**

The analysis of the EPA’s cost recovery practices concludes that further work is required to properly understand the impact of any changes to the cost recovery regime on the EPA’s financial position, but that changes to the regime are unlikely to result in a significant source of extra funding for the EPA. The Ministry will work with the EPA to fully assess this.

The cost recovery report recommends a number of areas for further work, including:

- updating the hourly charges for cost recovery of nationally significant proposal (NSP) applications and EEZ decision-making and compliance to take account of, for example:
  - an adjustment for inflation
  - any efficiencies gained through the formation of the EPA
- developing a better understanding about how effectively the existing cost recovery regime is working, in particular monitoring performance against target cost recovery rates and understanding the extent to which the EPA is recovering all justifiably recoverable costs
- reviewing in detail the cost recovery regime for HSNO, including reviewing the current target rate of cost recovery of 17%, and the method of charging.

It is unlikely that making these changes will result in significant changes to the EPA’s non-Crown funding. However, we consider making the changes, or at least investigating their impact, will be important for providing clarity to applicants and improving consistency in the EPA’s approach to cost recovery.

**Implementing its regulatory functions**

**Assessing risk and the decision-making process**

The EPA has demonstrated that it can process applications within statutory timeframes in its discretionary decision-making areas. However, concerns were raised during the Review about the risk-averse nature of the decisions it makes, and that it is sometimes inflexible in the way that it interprets its role.

Each of the environmental Acts sets out different statutory criteria for decision making that the EPA must adhere to, and which affect how risk and uncertainty are considered. Given this, we consider that the continued development of transparent systems and processes for assessing risk and uncertainty will be important for ensuring that stakeholders maintain confidence in the decisions made by the EPA.
Additionally, and related to the above point, concern was raised during the Review that the EPA is perceived to be favouring applicants in the decision-making process. While we have not been presented any evidence that this is the case, it is important to point out that stakeholders (such as applicants, submitters, and other interested parties) must have confidence in the EPA to be able to come to independent decisions without favouring one party over another.

The Review findings reflect, as we would expect, that different regulatory regimes are in different states of maturity. This is the result of both the length of time that regimes have been operating, as well as the complexity of decisions required under those regimes.

The newness of some regimes (e.g., EEZ) and the restructuring of other regimes (e.g., the transfer of some HSNO functions to the newly-formed Worksafe) has made it difficult to comment on the effectiveness of specific regulatory regimes, other than to assess whether legislative timeframes are being achieved. The exception is the ETS, where feedback received during the Review clearly supports the assessment that the administration of the scheme is sound. The function has good cross-agency governance arrangements, access to expertise, a good understanding of the delivery of its core business, and considers how it fits with and contributes to the wider climate change policy agenda.

**Obtaining suitable decision makers**

An increasing challenge for the EPA is identifying and obtaining decision makers who are suitable for appointment to decision-making committees. This includes identifying candidates suitable for appointment by the Minister for the Environment to boards of inquiry for nationally significant proposals.

The first challenge is the small New Zealand market limiting the number of potential candidates. The second challenge, which is exacerbated by the first challenge, is to identify candidates who do not have actual or perceived conflicts or have conflicts that can be managed. The final challenge is imposed by the Cabinet Fees Framework which sets the fees payable to boards and committees, depending on the type of work they are doing. The fee levels set by the Cabinet Fees Framework recognise a public good element and therefore set the rates significantly lower than many of the potential candidates could obtain in the private sector.

Overcoming these challenges will not be easy, in particular because making changes in these areas is generally outside the control of the Ministry and EPA. However, the Ministry will work with the EPA and other agencies to consider options for addressing these matters. Examples could include investigating ways to better share resources and the potential for providing a permanent decision-making committee resource.
3 Responding to the recommendations from the component reports

Reviewers have made a number of recommendations in the various component reports, many of which have already been reflected in previous sections of this report.

Generally, the Ministry is supportive of the recommendations made in the component reports. We have highlighted in previous sections those recommendations that we consider are most likely to result in the EPA making the transition from an operationally focused organisation to an effective and fit for purpose environmental regulator. However, the Review reports contain other recommendations that if implemented will help the EPA achieve that goal. The span of recommendations means they will need to be prioritised.

There are approximately 42 recommendations across the component reports. We have condensed these into 12 high level recommendations, as summarised in Table 2.

Table 2: Summarising the recommendations of the Review component reports

<table>
<thead>
<tr>
<th>The Minister and Ministry should:</th>
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<tbody>
<tr>
<td>1. Consider how implementing the Review recommendations will affect the future skillset needed by the Board, and reflect that when making new appointments (eg, particular skills in organisational development and strategy).</td>
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<td>2. Conduct a follow-up review to ensure progress is being made.</td>
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<td>3. Support the EPA in implementing the recommendations from the Review, in particular through the Ministry drawing on its own experience of organisational change and developing strategic documents.</td>
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<table>
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<tr>
<th>The EPA should:</th>
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<tr>
<td>4. Shift from an operational/transaction focus to a strategic focus that includes considering its longer-term stewardship responsibilities.</td>
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<td>5. Strive for the ‘independence stamp’, ensuring its decision-making processes are robust, high quality, consistent and transparent.</td>
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<td>6. Retain the Māori Advisory Committee but redefine its role.</td>
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<td>7. Develop an operating model that better allows the organisation to be more responsive to patterns of demand, including investigating and, where viable, pursuing shared services with other government departments and Crown entities.</td>
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<td>8. Develop processes and measures to better understand how effective it is being.</td>
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<tr>
<td>9. Continue work to develop and implement a robust long-term operational strategy (which includes capital forecasts and a detailed operating budget and four year planning information).</td>
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<td>10. Working with the Ministry, determine if the existing funding levels and the current cost recovery framework will enable the EPA to make the step-change required and execute its future stewardship responsibility.</td>
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<tr>
<td>11. Invest in people development and management, particularly the management and senior leadership teams.</td>
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<td>12. Take action to address a range of operational issues.</td>
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2 Appendix B provides further information on how the recommendations of the component reports fit with the high-level recommendations in Table 2.
We acknowledge the recommendations for the Ministry. In particular, the Ministry will:

- consider the needs of the Board when advising the Minister on the upcoming round of EPA Board appointments (and will continue to do so in future appointments)
- draw on our own experience of organisational change and developing strategic documents to support the EPA in implementing the recommendations from the Review.

As noted earlier, our view is that the EPA should prioritise the following recommendations:

- shift from an operational/transaction focus to a strategic focus that includes considering its longer-term stewardship responsibilities
- develop a new operating model to allow the organisation to be more responsive to the patterns of demand
- develop processes and measures to understand the EPA’s effectiveness
- develop and implement a robust long-term operational strategy including capital forecasts and a detailed operating budget.

We consider these to be difficult to implement, but high impact recommendations. They are likely to be major projects that will take significant effort, but are worth doing because of the potential impact.

Next are the comparatively easy tasks that are expected to have a medium to high impact. The recommendations we anticipate will be ‘easy/quick wins’ are:

- retain the Māori Advisory Committee but redefine its role
- invest in people development and management, particularly the management and senior leadership teams.

The EPA is best placed to assess the relative priorities of the remaining recommendations.

**Areas of further work required**

There are two areas where we consider further work is required to understand the need for change recommended by the external review of the EPA’s effectiveness, before any steps are taken to implement those recommendations. The first area is the need for harmonised legislation across the range of regimes, the second is that the legislation is limiting the ability of the Board to govern.

**Harmonisation of regimes**

The rationale for establishing the EPA was to consolidate regulatory and technical skills, provide greater consistency in environmental management decisions, and make use of synergies between similar functions and powers. While the EPA has consolidated expertise in one organisation, the Review has identified that different decision-making processes and cost recovery practices across the regimes it administers may be hampering achievement of the consistency and operational synergy outcomes.

The external review identified a need to harmonise the regimes the EPA is responsible for. The rationale given is that this would enable a consistent approach to be taken, result in cost efficiencies, and potentially increase the available pool of decision-makers.
The Ministry recommends that work be undertaken to identify similarities and differences between the regimes and to identify ways of achieving efficiencies. We consider at least some of the benefits of harmonisation could be achieved without legislative change.

We expect the EPA will continue to engage proactively with the Ministry on potential areas for harmonisation.

**Legislation limiting the ability of the Board to govern**

The external reviewer considers that the legislative structure is limiting the ability of the Board to focus on governance, because it also requires that decision-making committees include a Board member.

Arguably the current legislation structure creates a tension where the Board member is involved in the decision, and the Board is responsible for the decision (in particular the robustness, quality and consistency of process).

We note that any change would need to consider if the reasons for requiring a Board member be part of the decision-making committee are still valid (ie, whether the current arrangements create an appropriate tension). Further work would then need to be undertaken by the Ministry together with the EPA to determine whether the best solution is an amendment to the legislation, or is a non-legislative change (such as a change in practice).
4  Next steps

Prioritise and plan for implementation of recommendations
The crucial next step for the EPA is to prioritise and plan implementation of the Review recommendations. The Ministry will work with the EPA to support it through this process. We consider a jointly agreed implementation plan is likely to be the most successful way forward.

The Ministry acknowledges that the EPA Board recognises the challenges ahead of it and are taking positive steps towards implementing the findings of the Review.

Getting the EPA ‘investment ready’
The Ministry is working with the EPA to understand its ongoing Crown funding requirements, including if additional funding is needed to implement the recommendations of this Review.

We expect several iterations of the financial information will be required before the EPA is ‘investment ready’ and this will not be achieved for the 2015/16 financial year. The EPA will be working closely with MfE and the Treasury throughout 2015 to prepare a business case for a sustainable baseline to be considered as part of Budget 2016.

Amendments to the cost recovery regime
There are several next steps indicated by the cost recovery review report.

- The Ministry and the EPA will need to work together to assess and potentially progress the recommended changes to the cost-recovery regime (such as changes to hourly rates).
- The Ministry will lead a review into the possibility of increased cost recovery for HSNO, with input from the EPA. The Ministry will need to consider how to prioritise this review against its other priorities for the coming year.
- At some later point the Ministry will consider opportunities for additional cost recovery of activities to administer the New Zealand Emissions Trading Scheme (ETS) and New Zealand Emissions Unit Register (NZEUR), likely to be progressed as part of a wider scheduled review of the ETS, and also reconsider the appropriateness of the 80:20 ratio of funding for mixed-benefit activities for consenting and monitoring activities in the Exclusive Economic Zone.

Harmonising the regimes
As noted above, there is ongoing work for the Ministry to identify and address legislative or regulatory impediments to the EPA’s operational effectiveness. The review has highlighted that greater harmonisation of the EPA’s regimes may overcome some of these impediments.

To address this, we will ensure that harmonisation opportunities are explicitly considered in our regular reviews of the operation of individual regimes. We will also explore whether an overarching project that is focused on achieving greater harmonisation is required.
Enhanced monitoring

The Ministry will now, in consultation with the EPA and the Minister, review our monitoring of the EPA. This Review provides an appropriate opportunity for us to reconsider our approach to monitoring the EPA. This may include consideration of what aspects are monitored, and how monitoring adds value to the EPA and the Minister, as well as the practical ‘how-to’ of monitoring.

In particular, we intend to more closely monitor the EPA’s finances and risks. We have already taken steps to enhance our understanding of the EPA’s finances and financial forecasts through the work underway to improve the EPA’s financial forecasting for the next four years, and its reporting on how it uses Crown and third party funding.

Supporting the Minister in his role

The external reviewer has recommended that the Minister:

- reflect the findings of the Review and his resulting expectations in the annual letter of expectations
- ensure the EPA Board membership includes the skills and experience necessary to ensure effective implementation of the findings of the Review.

The Ministry has a role to support the Minister in these tasks. We provide advice on the annual letter of expectations, including providing a draft letter for consideration. Therefore, the Ministry intends to focus the upcoming and future letters of expectation around the findings of the Review and progress being made towards implementing the findings.

The Ministry also provides advice on appointments to the EPA Board. The Ministry is currently undertaking a Board appointments process. This appointments process provides an opportunity to address any skill gaps.

When providing Board appointment advice we will take into account the recommendations of the Review on Board membership and advise the Minister on how best to achieve these. For example, we expect the Board will need at least one member with significant experience leading an organisation through an organisational development phase or change process, and/or someone with significant experience leading a regulatory body. We might also want to ensure the board has appropriate financial experience and skills.
Appendix A: Signposts and desired behaviours to evaluate the effectiveness of the EPA

<table>
<thead>
<tr>
<th>Dimension</th>
<th>PIF elements</th>
<th>PIF definition</th>
<th>Signposts / desired behaviours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results</td>
<td>• Government priorities</td>
<td>The legitimacy of public institutions rests on their ability to demonstrate high levels of integrity and performance. The public and their political representatives need to be confident that public ownership, funding, provision and regulation of activity are adding most value for the community while minimising its costs. Making a positive difference should also help attract, retain and motivate the right people to work in the public sector.</td>
<td>• The EPA understands and measures:</td>
</tr>
<tr>
<td></td>
<td>• Core business effectiveness</td>
<td></td>
<td>o how it contributes to the Government’s priorities*</td>
</tr>
<tr>
<td></td>
<td>• Core business efficiency</td>
<td></td>
<td>o how it makes a difference and the impact this has on New Zealand (ie, effectiveness; the results being achieved)*</td>
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<tr>
<td></td>
<td></td>
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<td>o the efficiency of its operations.</td>
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<tr>
<td>Strategy and role</td>
<td>• Purpose, vision and strategy</td>
<td>Clarity in role and strategy bridges policy and delivery; it clarifies for everyone how an agency delivers value, and what that value is. It makes a complex operating environment simple. When done well it unifies the silos and enables prioritisation.</td>
<td>• The EPA understands how its regulatory role contributes to an effective and efficient environmental management system.*</td>
</tr>
<tr>
<td></td>
<td>• Structure, roles and responsibilities</td>
<td></td>
<td>• The EPA has a future-focused strategy that clearly articulates its purpose and vision, and proposes how it will assess its strategic performance.</td>
</tr>
<tr>
<td></td>
<td>• Engagement with Ministers</td>
<td></td>
<td>• The EPA’s operating model supports achievement of the strategy, consolidates regulatory and technical skills, and builds on synergies between similar functions and powers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The EPA effectively engages with Ministers, while recognising its independence as a Crown agent.</td>
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<tr>
<td>Dimension</td>
<td>PIF elements</td>
<td>PIF definition</td>
<td>Signposts / desired behaviours</td>
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</table>
| Internal leadership  | • Leadership and governance  
                      • Values, behaviour and culture  
                      • Leadership and workforce development  
                      • Management of people performance  
                      • Engagement with staff                                                                 | Most people join the public service from a strong sense of mission and often passionate desire to make a positive difference to the lives of New Zealanders. Many of the nation’s brightest graduates and best thinkers are attracted by the idea of public service. This is a powerful idea and the talent it attracts is arguably the most important asset in the public sector. This reservoir of talent and passionate commitment has a huge opportunity value. It needs to be fully utilised and developed. | • Decisions are being made at appropriate levels within the EPA and the different parts of management are focused on appropriate activities (eg, Board sets strategy, ELT run the business).  
 • The EPA’s expected values, behaviour and culture are clearly articulated and embedded.  
 • The EPA’s operating model ensures it has a core capability of staff, and supports the retention and development of staff. |
| Working with others  | • Sector contribution  
                      • Collaboration and partnerships with stakeholders  
                      • Experiences of the public                                                                 | Great public institutions recognise their role as part of a wider system and know who they need to enlist in order to better meet the current and future interests of those who they must serve well in order to thrive. Great public institutions align the interests of their institution with those of New Zealand and partner effectively with others to ensure those interests are well served. | • The EPA has a clear strategy for working with other agencies, recognising their role in the environmental management system and helping ensure the system is as effective and efficient as possible.*  
 • The EPA shows leadership in the sector, taking ownership for sector results where appropriate, and seeking to influence others to pursue changes that are outside its own mandate.*  
 • The EPA appropriately recognises and supports the needs of the Minister, applicants, submitters and the general public, while maintaining its integrity/independence as a regulator.* |
| Improving delivery   | • Review  
                      • Improving efficiency and effectiveness  
                      • Regulatory stewardship                                                                 | Part of the public sector’s legitimacy rest on the acceptance that regulation adds value to the community in excess of the costs that regulations impose. As does a well-developed ability to review and test the efficiency and effectiveness of what an agency does. In addition, it is an important stimulant to innovation and creates a structured way for an agency to learn from its experiences and identify opportunities for continuous improvement. | • The EPA understands its cost drivers and how these impact on its own effectiveness and efficiency as well as that of the environmental management system.  
 • The EPA has a culture of reflection and learning, embedding lessons and continuously improving its processes and practices, and consequently the effectiveness and efficiency of the system.*  
 • The EPA is continuously identifying and implementing improvements (ie, efficiency and effectiveness).  
 • The EPA uses the hard and soft information it collects |
<table>
<thead>
<tr>
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<th>PIF elements</th>
<th>PIF definition</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Finance and resources</td>
<td>• Asset management • Information management • Financial management • Risk management</td>
<td>This dimension is important as these functions should provide the information, intelligence and analysis that forms the basis for decision making that underpins strong agency performance. Superior performance requires that the right information is available to the right people at the right time, and that this information is properly analysed and used. Financial and risk management are critical components and should help management understand and improve operational performance as well as informing strategy formulation, prioritisation and investment decisions. Good risk management is also critical in maintaining confidence in the agency.</td>
<td>The EPA has appropriate systems in place that support the delivery of its core business now and over the four year excellence horizon. The EPA’s asset, information and system requirements are understood and there are plans for maintaining and developing these. The EPA undertakes robust four year financial forecasting which means it can effectively engage in discussions on prioritising financial resources, including potential trade-offs and the consequences of these. The EPA’s systems and processes for assessing risk are transparent, resulting in Ministers, stakeholders and the general public maintaining confidence in the organisation.</td>
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*Previously included in a Letter of Expectations from the Minister to the EPA*
Appendix B: Distribution of the findings of the EPA’s self-review and the external reviewer’s effectiveness and efficiency review across the high level recommendations

The Minister and Ministry should:

1. Consider the needs of the Board when making appointments.

   When considering the future Board appointments, the Minister takes into consideration the organisation’s changing focus (i.e., a need to undertake organisational change and refresh the organisation’s strategy) and continues to consider the need for the Board to understand and administer regulation in an area that is at the forefront of very contentious issues, where quality decision-making requires a highly sophisticated approach. Understanding as much of the work of the EPA requires expert oversight of complex and challenging technical and procedural issues, which in themselves often have a high degree of uncertainty. (7EE)

2. Conduct a follow-up review to ensure progress is being made.

   Consideration to be given to a follow-up PIF style independent review to ensure progress is made in response to the recommendations arising from this Review, as delivering on the above recommendations will be critical if the EPA is going to continue to be beneficial to New Zealand. (8EE)

3. Support the EPA in implementing the recommendations from the Review, in particular through the Ministry drawing on its own experience of organisational change and developing strategic documents.

   Drawing on its own experience of organisational change and developing strategic documents, the Ministry:
   a. works as a strategic partner with the EPA to develop a plan to action these recommendations
   b. as appropriate provides guidance and plays its part to help the EPA implement the plan
   c. through its monitoring function monitors on-going implementation of the plan. (9EE)

The EPA should:

4. Shift from an operational/transaction focus to a strategic focus that includes considering its longer-term stewardship responsibilities.

   The Board urgently increases its focus on its longer-term stewardship responsibilities, taking control of the organisation’s strategic agenda and striving for excellence and a reputation for independence and robustness in everything the EPA does. Refinement of its governance processes will assist this. (1EE)

   Agree what the end-state looks like and develop actions with timeframes to get there. (3SR)

   Measures and report progress toward achieving the vision and mission. (4SR)

   ELT to develop a long-term programme or agenda of issues to cover at its strategy sessions. (6SR)

   Develop actions and impact measures aimed at achieving the Strategic Intentions success measures. (7SR)

   Describe how the EPA meets the Government’s broader set of priorities and how it fits into the cross-government priorities. (9SR)

   Develop a new EPA Strategic Intention and measures to focus development of the compliance function. (10SR)

   We recommend that the EPA invests in strategy. (1FR)
5. Strive for excellence in the ‘independence stamp’, ensuring its decision-making processes are robust, high quality, consistent and transparent.

The Board urgently increases its focus on its longer-term stewardship responsibilities, taking control of the organisation’s strategic agenda and striving for excellence and a reputation for independence and robustness in everything the EPA does. Refinement of its governance processes will assist this. (1EE)

6. Retain the Māori Advisory Committee but redefine its role.

The Board redefines the role of the Māori Advisory Committee, seeking advice from the committee on critical strategic areas for Māori related to successful implementation of the regulations the EPA has responsibility for and raising the expectations of all participants in the EPA administered processes in relation to Māori. This will include shifting the burden of responsibility for consultation with Māori to applicants, and will also require the EPA addressing how and when it resources a Māori view input into its decision-making processes. (2EE)

7. Develop an operating model that better allows the organisation to be more responsive to patterns of demand, including investigating and, where viable, pursuing shared services with other government departments and Crown entities.

The Board drives the development of a new operating model that will enable the organisation to be responsive to demand ensuring the organisation has access to the ‘best’ and stable technical (scientific and commercial) capability available and can deliver consistent quality process outcomes. This will be a strategic resourcing model that anticipates and responds to the organisation’s need to draw upon variable external resource from partner organisations. Responding to workload and subject matter demands reflects both the unique New Zealand environmental context and the developments internationally and that takes a strategic approach to manage conflicts of interest and capability requirements. (3EE)

Use systems thinking when planning or designing processes so components across the organisation fit together. (14SR)

We recommend that the EPA looks at their operational model. (3FR)

8. Develop processes and measures to understand the EPA’s effectiveness.

The Board establishes processes and measures to really understand the organisation’s own effectiveness and that of the wider decision-making frameworks that it is responsible for. Working in partnership with the Ministry (and other sector partners) in a proactive manner to drive improved provision of greater central government direction and consistency in the management and regulation of the environment (particularly related to NSPs and EEZ legislation). This will include considering emerging policy that is not yet in legislation and determining how this can be accommodated into current decision-making. This will necessarily look at enhancing the existing legislation, including addressing the current structural requirements which are impacting the ability of the Board to govern. The latter includes enabling the Board to control the appointment processes for boards of inquiries and decision-making committees to ensure the right capability is present, and removing the need for Board members to sit on the decision-making bodies. The latter then fully empowers the Board to focus on the governance of the these decision-making processes, rather than finding itself being both ‘judge and jury’ with its members being involved in the actual decision processes themselves rather than the Board assuring the quality, robustness and consistency of the processes. Going forward the Board must be able to directly control and be held accountable for all aspects of the quality and sophistication of the decision-making processes that it is responsible for implementing. Opportunities for greater harmonisation across the regulatory framework should be considered at this time to increase internal efficiencies and break down internal silos within the EPA, and assist easier external understanding on how to deal and work with the EPA. (4EE)

Take a leadership role to drive change in the organisation and environment sector. (1SR)

Develop an agreed set of criteria against which programme and activities can be prioritised across the organisation. (8SR)

Define the EPA’s approach to compliance and its leadership role in the sector. (11SR)

Lead the sector to develop consistent compliance standards and expectations, prioritisation of interventions across multiple agencies, and the targeting of action and sharing of resource. (12SR)
9. Determine if the existing funding levels and the current cost recovery framework will enable the EPA to make the step-change required and execute its future stewardship responsibility processes and measures to understand the EPA’s effectiveness.

The Board works to determine if existing funding levels and the current cost recovery framework will actually enable the EPA to make the step-change required, and execute its future stewardship responsibility, working with MfE Ministry to resolve any material issues identified. This will require the Board to first understand its existing efficiency. (6EE)

The Board establishes a robust long-term operational strategy. This includes capital forecasts with a detailed and tested operating budget to support its future focus. Implementing already identified projects, as well as identifying the other priority internal processes and systems that need to be addressed to make the organisation ‘fit for purpose’ and most importantly, customer centric. (SEE)

Review existing technology infrastructure, consider business need, prioritise. (16SR)

Update the hourly charges for cost recovery of NSP nationally significant proposal applications and EEZ Exclusive Economic Zone decision-making and compliance to take account of the following:

- an adjustment for inflation
- any efficiencies gained through the formation of the EPA
- to ensure all direct and indirect costs incurred are being included in overheads
- confirm the appropriateness of including public benefit activities that support a function in overheads (e.g., the pre-application stage of the process, raising awareness of the EPA amongst the decision-making community and participating in international activities)
- ensure these are consistent across all EPA functions (or it is clear why they are not consistent). (1CR)

Improve the implementation of the existing cost recovery regime, in particular the theoretical rate of cost recovery vs the expected rates for the 2014/15 financial year (and future years). (3CR)

We recommend that the EPA continues to develop their financial knowledge and analytics of their business activities. (2FR)

Don’t use lack of funding as an excuse – prioritise and choose. (2SR)

10. Determine if the existing funding levels and the current cost recovery framework will enable the EPA to make the step-change required and execute its future stewardship responsibility.

The Board works to determine if existing funding levels and the current cost recovery framework will actually enable the EPA to make the step-change required, and execute its future stewardship responsibility, working with Ministry to resolve any material issues identified. This will require the Board to first understand its existing efficiency. (6EE)

The Board establishes a robust long-term operational strategy. This includes capital forecasts with a detailed and tested operating budget to support its future focus. Implementing already identified projects, as well as identifying the other priority internal processes and systems that need to be addressed to make the organisation ‘fit for purpose’ and most importantly, customer centric. (SEE)

Review existing technology infrastructure, consider business need, prioritise. (16SR)

Update the hourly charges for cost recovery of nationally significant proposal applications and Exclusive Economic Zone decision-making and compliance to:

- take into account inflation
- take into account any efficiencies gained through the formation of the EPA
- ensure that all direct and indirect costs incurred are being included in overheads
- confirm the appropriateness of including activities that also have public benefit into the calculation of cost-recovery overheads (e.g., the pre-application stage of the consent process, raising awareness of the EPA amongst the decision-making community, and participating in international fora and training activities)
- ensure these are consistent across all EPA functions (or it is clear why they are not consistent). (1CR)

Improve the implementation of the existing cost recovery regime, in particular the theoretical rate of cost recovery vs the expected rates for the 2014/15 financial year (and future years). (3CR)

We recommend that the EPA continues to develop their financial knowledge and analytics of their business activities. (2FR)

Don’t use lack of funding as an excuse – prioritise and choose. (2SR)
11. Invest in people development and management, particularly the management and senior leadership teams.

- Develop the CE’s key performance indicators earlier so they cascade into internal accountability documents and performance plans before the start of the financial year. (5SR)
- When tasking (Operational Leadership Team (OLT)) provide clear guidance around boundaries, perspectives to consider and any preliminary thoughts that ELT may have on the subject. (19SR)
- Invest in the development of the individual general managers. (21SR)
- Invest in the ELT as a team. (22SR)
- Invest in a suitable OLT development programme. (23SR)

12. Take action to address a range of operational issues.

- Develop a cohesive programme to proactively raise the profile of the EPA ensuring it identifies and manages potential risks to its reputation. Understand your objectives in raising your profile. (13SR)
- Review the organisation’s risks and its approach to risk management. Some risk statements do not reflect risk. (15SR)
- Integrate across the organisation lessons learnt from specific post-project reviews. Improve processes, update training and change to a learning culture. (17SR)
- Implement a programme management approach (this is not necessarily recommending a project management office). (18SR)
- Develop and implement a workforce and succession plan including a capability option. (20SR)
- Develop an explicit policy on the number of hours covered by the pre-application stage of the process for nationally significant proposal and marine consent applications. Also apply this policy to the pre-application stage of the HSNO process. (4CR)

The following are operational issues/findings where the Ministry will lead the response:

- Review the cost recovery approach for the hazardous substances and new organisms function. This includes (but is not limited to) considering:
  - the decision to cost recover HSNO decision-making at 17 per cent of the actual cost should be re-examined to identify if this rate is still appropriate
  - the charging framework (ie, fixed fee vs recovering actual and reasonable costs or a levy)
  - the possibility of recovering the cost of supporting the HSNO Committee
  - the approach to the Institutional Biological Safety Committees
  - the possibility of charging interested parties to view their register of hazardous substances and exposure limits. (2CR)
- Reconsider the approach to recovering costs from Crown applicants, potentially to make this consistent across all functions. (5CR) – jointly led with the EPA
- Consider opportunities for additional cost recovery of activities to administer the NZETS and NZEUR, recognising any changes need to take account of the broader policy settings and transition measures for the ETS. (6CR)
- Reconsider the appropriateness of the 80:20 ratio of funding (other (ie, private): Crown) for mixed benefit activities for consenting and monitoring activities in the EEZ. (7CR)

Codes:
EE: Recommendation from the effectiveness and efficiency review
CR: Finding from the cost recovery practices analysis
FR: Recommendation from the fiscal review
SR: Recommendation from the EPA’s self-review