

GOVERNMENT REFORM: OF ROLES AND FUNCTIONS OF GOVERNMENT AND PUBLIC ADMINISTRATION

NEW ZEALAND - COUNTRY PAPER

INTRODUCTION

The scope of reform in New Zealand over the last fifteen years is extensive, and has been well documented.¹ For this reason the paper only briefly describes key aspects of reform, with an emphasis on the thinking behind the reform process rather than on the details of reform itself. Furthermore, **this paper only covers reform to the State sector.**² Appendices 1, 2 and 3 provide some indication of the scope of wider reform in New Zealand.

Reform in New Zealand can be divided into two distinct phases:

- 1984 to 1994 - a period of rapidly implemented radical change; and
- 1995 onwards - a period of slower paced evolutionary change.

The reforms in New Zealand have been underpinned by a coherent set of principles and objectives which have shaped policy decisions. Implicitly contained within these objectives and principles is a fundamental reconsideration of the roles and functions of central government within the economy and society.

The New Zealand experience of reform demonstrates that comprehensive and fundamental change in a short period of time is possible. However, it is also recognised that the circumstances behind the reform process were specific to New Zealand at a certain point in time. In addition to the poor economic situation in which New Zealand found itself in, a number of contextual factors (political, constitutional and institutional), particular to New Zealand in the early 1980s, were crucial to the successful implementation of reform.

¹ See for example:

Boston et al., *Public Management: The New Zealand Model*, Oxford University Press, Auckland, 1997.

OECD, *OECD Economic Surveys 1995-1996: New Zealand*, OECD, 1996.

State Services Commission, *State Sector Reform: A Decade of Change*, State Services Commission, 1996.

Schick, Allen, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, State Services Commission, 1996.

Scott, Graham C., *Government Reform in New Zealand*, IMF Occasional Paper, N. 140, 1996.

For a counterview see: Kelsey, Jane, *The New Zealand Experiment: A World Model for Structural Adjustment?*, Auckland University Press, 1997.

² For a detailed description of economic reform in New Zealand see: Evans, L., Grimes, A., Wilkinson, B. & Teece, D., 'Economic Reform in New Zealand 1984-95: The pursuit of Efficiency'. In *Journal of Economic Literature*, Vol. 34, Dec. 1996, pp. 1856-1902.

Furthermore, there is a clear link between management of the reform process, the scale and scope of change and the circumstances within which reform takes place. As the New Zealand economy has recovered and the initial burst of radical reform has been completed, the approach to implementing and managing change has altered, to reflect the changing political, institutional and economic circumstances.

This paper describes the overall context within which reforms have occurred, then focuses on the more radical stage of the reforms that included the major structural and legislative changes. Finally the paper examines some of the initiatives taken most recently in New Zealand to improve public sector performance.

OVERALL CONTEXT

Incentives for Reform

The immediate trigger for reform in New Zealand was a small constitutional crisis coupled with a foreign exchange crisis in July 1984. However, many contextual forces converged to set in motion reform in New Zealand. In particular:

- New Zealand's economy had been in relative decline since the mid 1950s and there was widespread dissatisfaction with the economic management and interventionist policies of the previous government, especially among the business community. Unemployment was growing and reached 7 percent by 1983, real GDP per capita growth between 1976 and 1984 totalled only 1.15 percent annually, and government net debt as a proportion of GDP rose from 9 percent in 1976 to 41 percent by the mid 1980s. By the early 1980s the OECD standard of living index placed New Zealand 20th out of 24 member countries;
- there was a general shift in preference, both in New Zealand and other OECD countries, towards a better focussed state sector and a more extensive reliance on market mechanisms through contracting out, commercialisation, corporatisation and privatisation;
- the election in 1984 of a Labour Government which contained a number of key Ministers who vigorously supported reform; and
- strong intellectual support for reform amongst key senior officials, in particular the Treasury whose briefing paper to the incoming Government, *Economic Management*, set out a series of concerns with the structure and operation of the State sector.

As the New Zealand economy has recovered, and the initial burst of radical reform has been completed, reform has tended to be at a slower pace and of an evolutionary nature. The main impetus for change now comes from the policy agenda of the Government, and the ongoing process of review that was built into the new public management system, in particular via the strategic management system.

Current Drivers of reform

The main drivers of the *current* focus of reform to public management can be divided into four broad categories:

Economic

The current fiscal and budgetary framework in New Zealand is one of fiscal responsibility.

There are growing economic impacts from predicted demographic change, in particular the effects of an ageing population and a reducing tax base.³

Social

New Zealand governments are facing problems in the areas of health, employment, social participation, justice, education, and the social and economic conditions experienced by Maori. These problems are interrelated, intergenerational and not susceptible to any simple policy intervention. In the face of declining social indicators there is a need to lift performance in the areas of social policy and social service delivery, at the same time as maintaining fiscal responsibility. The issue for public management is to develop the capacity to engage in a co-ordinated and focused manner with issues that extend beyond individual departmental portfolios.

State Sector Review

There have been a number of reports on the New Zealand reforms such as *The Logan Report* (1991) and *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, (1996). In the latter report Professor Allen Schick assessed the reforms and highlighted that the system was geared more to the short-term production of outputs rather than to planning for the long haul, and to accounting for what has been produced rather than to evaluating progress in achieving major policy objectives. He challenged the State Sector “to do for outcomes what has been accomplished for outputs” by moving from management issues to policy objectives; to fostering outcomes, such as social cohesion.

Political

The policy agenda of the current Government includes elements of continuing reform.

New Zealand’s Prime Minister has expressed concern about the responsiveness of the Public Service to Government’s strategic goals, and about related problems with the co-ordination of policy and service delivery.

The Minister of State Services has recently articulated what he sees as three core drivers of the need to review the functions and roles of government.

- The need to assure the sustainability of core government in New Zealand within the current fiscal and budgetary framework, especially given emerging fiscal pressures arising from projected demographic changes associated with an ageing population.

³ See State Services Commission, *Strengthening Strategic Management: Summary of Fiscal Modelling Work*, State Services Commission Occasional Paper Number 4, 1998.

- The need for a realistic evaluation of the theoretical assumptions of the New Zealand model which have not been borne out in practice.
- The need to be selective about those areas of policy engagement in which government claims to be able to influence outcomes; and make a good job of doing so.⁴

REFORM OF ROLES AND FUNCTIONS OF GOVERNMENT

Government roles and functions

Since 1984 there has been comprehensive and radical reform of New Zealand's State sector structures, systems and processes. No aspect of the State sector remains untouched. Reform of the State sector has taken place within the wider context of economic reform, and has been consistent with an overall trend towards a liberalised economy and a greatly reduced core State sector.

It is possible to identify underlying themes in the overall policy direction of the last decade which indicate a redefinition of the role of the government in both the economy and society.

The overall purpose of structural reform activity is to significantly improve the performance of the State sector, first by removing any functions that the government considers to no longer be the business of the State or that could clearly be better performed elsewhere, and then by ensuring the agencies responsible for the remaining functions are structured to deliver their services as efficiently and effectively as possible.

The principles underlying the New Zealand model of State sector reform are as follows:

- the State should do and/or fund only those things relating to exercise of its constitutional and coercive powers and/or those things where it has a comparative advantage (the redefined role of the State);
- every State agency should have unambiguous and transparent purposes with significant functional conflicts exposed and eliminated so far as practicable (clarification of agency purposes);
- fully commercial functions that remain the responsibility of the State should operate in private sector and competitively neutral forms under the governance of boards of directors, paying tax and dividends (corporatisation);
- advisory functions relating to the full range of the Government's interests and responsibilities, support for the administration of government, and regulatory and service delivery functions relating to the State's constitutional and coercive powers, should be performed by departments of the Public Service, and by the police and defence forces, directly responsible to Ministers (definition of the core State); and

⁴ Hon Simon Upton Minister of State Services, *Public Service Senior Management Conference Opening Address*, 1998.

- non-commercial and non-departmental functions should be performed where appropriate, by agencies operating under appointed or elected boards, or by statutory officers, or by competitively neutral private and voluntary sector suppliers (the non-core State).

The objectives of reform have centred around effectiveness, efficiency, accountability, transparency and consistency. Key elements of the reform process have included:

- the corporatisation and privatisation of government trading enterprises;
- departmental restructuring to rationalise the functions and shape of the core Public Service, particularly by separating policy advice, service delivery and regulatory functions, and related to this the separation of the roles of funder, provider and purchaser. Some of the service delivery functions have been moved to a group of non departmental agencies known as Crown entities;
- decentralisation of departmental management with chief executives responsible for decision-making with respect to human resources and the selection and purchase of inputs;
- an increased use of contracts (eg performance agreements between Ministers and departmental chief executives, purchase agreements between Ministers and departments, contracts between funders and purchasers and between purchasers and providers); and
- a change in the basis of State sector financial management through the introduction of accrual accounting, from a focus on inputs to a focus on outputs and outcomes.

The broad direction of reform is continuing, for example, reform of the electricity sector; and the accident compensation insurance system.

There is also ongoing structural evolution of the State sector (departments, State owned enterprises, and Crown entities). Current machinery of government work includes reviews of border management agencies, the heritage and culture sector and further asset sales.

A defining feature of the New Zealand reforms is the fact that they were shaped by certain bodies of economic and administrative theory; notably: Public Choice theory, Agency theory, Transaction Cost economics, Managerialism and New Public Management.⁵

Role of ministers, legislature, politicians and political parties

As detailed below, the political and constitutional context within which the reforms in New Zealand were initiated, played a vital part in the success of their implementation.

The reforms in New Zealand were introduced via legislation supported by administrative change. The effect of passing legislation was to make clear the purpose and philosophy of the

⁵ For a detailed description of the theories underpinning the New Zealand model of State sector reform see Boston et al., 'The Ideas and Theories Underpinning the Model'. In *Public Management: The New Zealand Model*, Oxford University Press, Auckland, 1997, pp.16-40.

changes, as well as the technicalities. This clarity emphasised the fact that the Government was committed to radical changes in State sector management.

The principles underlying the thinking behind the reform process were reflected in four key pieces of legislation:

- the **State Owned Enterprises Act 1986** which provided the basis for converting the old trading departments and corporations into businesses along private sector lines;
- the **State Sector Act 1988** which made departmental chief executives fully accountable for managing their organisations efficiently and effectively, and changed the role of the State Services Commission⁶ from employer and manager of the Public Service to employer of chief executives and advisor to the Government about management of the State sector;
- the **Public Finance Act 1989** which changed the basis of State sector financial management from a focus on inputs to focus on outputs and outcomes; and
- the **Fiscal Responsibility Act 1994** which improves the conduct of fiscal policy by specifying principles of responsible fiscal management and by strengthening the reporting requirements of the Crown.

New Zealand's constitutional arrangements meant that the Government was able to legislate speedily and decisively. New Zealand is a unitary state with a one chamber Parliament. The first past the post electoral system (up until the move to MMP in 1996), traditionally delivered a one party government. A governing party with a clear parliamentary majority can legislate its programme with few constitutional impediments.

Broadly speaking there is general consensus between the major two political parties about the underlying principles and direction of reform, and in particular the need for fiscal restraint. Differences in the agendas of political parties tend to centre mostly around the extent of reform rather than its direction.

Three years ago New Zealand introduced Mixed Member Proportional representation and a coalition government was formed in 1996 followed by a second coalition of the same main party in 1998. It is too early to evaluate the impact of this change to MMP on reform processes.

Role of the Public Service

Central Agencies

Three central agencies - the Treasury, the State Services Commission and the Department of the Prime Minister and Cabinet - act together to perform the functions of a corporate office for Government.

⁶ The multi-member Commission was replaced by a single State Services Commissioner and Deputy Commissioner in 1989.

The Treasury advises the Government about economic and financial matters, and especially the development and management of its Budget. It has interests in all issues that have fiscal implications, short and long term. These functions give it a powerful role in all aspects of policy development and management.

Of the central agencies the Treasury was a key driver of the reform process and provided the intellectual leadership in the form of its briefings to the incoming government in both 1984 *Economic Management*, and 1987 *Government Management*.

The Treasury had a strong institutional capacity to take the lead role in the reform process, due to:

- Treasury's role as the Government's principal financial and economic adviser, which means that the Treasury has considerable influence over virtually all areas of domestic policy.
- recruitment and staff development policies within the Treasury which meant that there was a large staff of skilled economists and policy analysts with a good understanding of developments in economic and administrative theory.

The *State Services Commission* advises the Government about the efficiency and effectiveness of the machinery of government, about management of change, human resources and information management in the State sector, in addition to the Commissioner's statutory functions relating to the appointment, employment and performance management of chief executives.

The State Services Commission's main role in the first phase of change management process was one of overseer, and often focused around staffing issues which was in keeping with its previous role as employer of the Public Service. The role of State Services Commission was radically transformed with the introduction of the State Sector Act in 1988. The State Services Commission has had to restructure and reposition itself within the new public management framework, and has moved towards a role which focuses on advising the Government on its ownership interest. In order to fulfil both its change management role and its role in the new public management system, it has been necessary for the State Services Commission to improve its strategic management capability.

The *Department of the Prime Minister and Cabinet* has an interest in any matter that is likely to carry implications for the Government as a whole. It advises the Prime Minister about general policy and constitutional matters and co-ordinates policy work in the State sector. The Department also incorporates the Cabinet Office, which provides constitutional advice, supports the Government in managing its business agenda, and keeps the official records of the Cabinet and its Committees.

The Department of the Prime Minister and Cabinet was reconstituted in 1989. The review arose out of concerns about policy co-ordination problems, the policy dominance of the Treasury and a desire to ensure contestable policy advice within government.

Generally central agencies have worked together closely with each other and with line departments to support reform.

Potential points of conflict have been:

- Treasury dominance in the provision of policy advice; and
- resistance to the State Services Commission's change management role and developing monitoring role due to its past associations as a control agency.

Departments

The role of senior officials in departments was crucial in both providing leadership and implementing changes in the 1990s.

The new system of public management transferred authority along with responsibility and accountability to departmental heads; therefore success or failure depended largely on their response. A high calibre of leadership, motivation, communication, and management skill at the top of organisations, was necessary to enable staff who were resistant to change to become comfortable with it, and to maintain the momentum of reform.

Role of other players – international bodies, think tanks, universities, interest groups, significant voices in the private sector and community.

Groups such as international bodies, think tanks, universities, interest groups, private sector and community groups have played a variety of roles in the reform process.

The key theoretical underpinnings of the reform agenda challenged the traditional access of many interest groups to the policy making process, particularly unions who had traditionally had a great deal of influence. Unions were weakened further by labour market reforms, such as the end of compulsory unionism and the Employment Contracts Act 1991.

Consequently, many interest groups became marginalised by the reform process. In contrast, other traditional organisations such as the Employers Federation, Federated Farmers, the Retailers Federation and the Manufacturers Federation, which had previously advocated interventionist policies, increasingly become active supporters of the reform process.

The business community has played a significant and proactive role in the reform process, with groups such as the Business Roundtable, the Top Tier Group, Chambers of Commerce and the Institute of Directors publicly advocating reform.

The thinking of officials and key politicians was greatly influenced by intellectual developments internationally, particularly from academics and international organisations such as the World Bank, the International Monetary Fund and the OECD.

Academics, community and professional groups (such as New Zealand Council of Christian Social Services, the Coalition for Public Health, the Unemployed Workers' Rights Centre), have consistently provided a critique of both the impact of the reforms, and the methods of implementation.

Communication/consultation with the public

Overall there has been limited contribution to the reform process by the general public. This was particularly the case during the first stages of reform, when the public was informed after the decision had been made to introduce radical changes to the roles and functions of government.

More recently major reform is often accompanied by some kind of public information campaign that can include television advertisements, mail outs and/or brochures available at the departments or agencies involved on how the public will be affected. For example, during the recent retirement income debate and referendum a series of television advertisements were screened and explanatory brochures were sent to all households.

Reform is generally accompanied by legislative change. There are two main opportunities for public input into the content of legislation.

- *Pre-legislative consultation.* Increasingly, the public and key interest groups are consulted with during the developmental stages of new legislation, for example the release of discussion documents on which submissions are sought; and
- *While a bill is passing through its stages in Parliament.* A key point of access for the public into the policy making process is when a bill has been through the second major debate in the House and goes to a Parliamentary select committee for consideration, where submissions made by the public are studied. Select committees often alter draft legislation as a result of submissions by the public.

The New Zealand public has not accepted reform unquestioningly, and there has been a significant level of protest and disquiet (eg unions, community groups, students). However the overall level of public protest has been relatively low, (when one considers the scale and scope of reform), and has declined as the reforms have progressed. Importantly, community protest is often the result of reform which directly highlights the withdrawal of government from people's lives and communities, for example the closure of Post Offices and hospitals. Public protest has successfully changed government policy in only a few instances, the most recent example being the removal of the surtax on old age pension entitlements.

One of the paradoxes of the process of reform in New Zealand is that while the reforms are regarded as a success by policy elites and overseas commentators, there has been a decline in public confidence in the Government, the Public Service and political parties. This phenomenon is common across some other OECD member countries. It may be in part due to the increased transparency of the governance process and a resulting increased expectation on the part of the general public. However, there is little doubt that the speed and scope of the reform process has contributed to the loss of confidence in public institutions.

Reviews

The progress and direction of the State sector reforms, initiated by the Labour Government of 1984, were reviewed by the National Government soon after it took office in 1990. Following this study, known as the *Logan Report*, the new Government substantially endorsed the course of the reforms.

In 1995 the State Services Commission and the Treasury jointly engaged Allen Schick, Professor of Public Policy at the University of Maryland and Visiting Fellow at the Brookings Institution in Washington, to undertake a comprehensive appraisal of the reform programme. Professor Schick's report, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, was finished in late 1996, and was the basis for a major seminar, *Future Issues in Public Management*, in March 1997.

Key lessons

1. Recognise the problem

For reform to occur, there must be acceptance that there is a problem, agreement about its definition and solution, and preparedness to commit to a process of implementation that may have to overcome many obstacles before producing much in the way of visible results. These conditions are rare. The pace and scope of change in New Zealand was possible only because of the general recognition of the need for change in government administration, in an environment where other large changes were occurring and in which there was little support for the status quo.

2. Solve a Sequence of Real Problems

The temptation to seek to implement a 'grand design' must be overcome. Although it is important to have an end-point in mind, and principles that ensure that inconsistencies are not built into the system, the change management programme should emphasize the solution to real problems. This can improve the design and produce early payoffs that will justify the costs and gain political support for maintaining the pace of reform.

3. Political Commitment is Necessary at Key Points

Reform in New Zealand could not have proceeded without the leadership of the Prime Minister, nor could reform have been accomplished without the support of the Ministers of Finance, State Services and other key Ministers involved in fiscal policy and public administration. Ministers and key politicians steering the necessary legislative proposals and implementation programme through the Government and Parliament, had active input from senior political figures.

4. Leadership from Heads of Departments Is Essential

Chief executives of government departments and heads of central agencies must be committed to change. It is also important to have the support of influential officials inside departments to make sure that the momentum of change is maintained.

5. Do Not Relax Central Controls Too Soon

There is considerable risk in removing old systems of control before new systems of accountability are in place. Therefore it is important that the timetable for implementation allows for the establishment of new systems before the old ones are removed.

6. Managers Will Welcome Change

Generally managers at all levels of an organisation's hierarchy will be responsive to change. However allowances should be made for the need to replace those who are unresponsive to change or do not have the skills required to implement reform and to work within the new system.

7. Create Incentives for Change

Departmental heads saw the replacement of old systems of input control with new systems of accountability as a positive change. This type of motivation can help to implement the reforms.

8. Communicate the Objectives of Change

The objectives of reform need to be made clear to both management and staff who will be relied upon to successfully implement change. Departments need communications programmes to explain the process and the manner in which the public will be affected.

9. Decentralise Technical Accounting Issues

The detailed directing of the accounting practices of individual departments should be avoided.

10. Accept the Allocation of Senior Management Time to Change

Allowances should be made for the fact that during the implementation phase, some of the traditional functions of departments, for example the provision of policy advice, will receive less attention than usual.

11. Manage Transitional Risks Carefully

An important aspect of managing the risks is to anticipate problems, and to intervene quickly to limit damage and correct problems.

12. Managing Change at Departmental Level Is Critical for Success

State sector reform shifted the responsibility for management onto departmental chiefs, therefore success or failure depended largely on the chiefs' response. For this reason, a change in senior management is often a critical factor in the successful implementation of comprehensive management reform.

Adapted from Scott, Graham C., 1996, *Government Reform in New Zealand*, IMF.

REFORM OF PUBLIC ADMINISTRATION

Development of New Zealand's Strategic Management System

Over the past decade, successive Governments have overseen an extensive programme of reform in the State sector. The latest stage involved adapting well-established practices of strategic management to the Public Service. The shift from centralised regulation to decentralised management made departments more business-like, more attentive to government objectives and more responsive to their clients. The downside however, has been insufficient attention to balancing the intense focus given to the achievement of short-term output targets in individual departments, against decisions affecting the longer-run interests. It gradually became apparent that the decision-making model needed further improvements, with better connection between Government's priorities and departmental commitments in pursuit of the Government's priorities, and centralised co-ordination and review of departmental commitments. In essence, that model is strategic management.

The initial impetus for the strategic management system came from the publication in mid-1993 of *Path to 2010*, a National Party statement of their long-term vision and goals covering matters such as economic, social, environmental and racial progress (which was later adopted by the new government).⁷ The strategic management process gained momentum as a result of the concern of the then Prime Minister that the Public Service should give more tangible expression to the medium-term steps it would take to move towards achievement of the long-term vision. The Prime Minister wanted to ensure that:

‘the outputs that are central to the [Government’s] strategic goals are clearly identified by Ministers and departments alike, and are the subject of continuous and intense focus in the advice on the design and implementation of policies put before the Government.’

The Government also began the practice of releasing annual updates of its 1993 strategy document as part of the annual Budget package, and in 1995 commenced publishing annual Budget Policy Statements outlining long-term fiscal objectives and corresponding short-term intentions with broad strategic resourcing priorities.

The next step was to translate the priorities identified by Ministers into action by the Public Service. Building on design work undertaken by the State Services Commission on the use of Key Result Areas (KRAs) for chief executives, the central agencies (the Treasury, the State Services Commission and the Department of the Prime Minister and Cabinet), set about addressing the problem. During 1994, the Department of the Prime Minister and Cabinet developed nine Strategic Result Areas (SRAs) - a selective set of major, cross-portfolio policy objectives agreed by Cabinet, with an initial ‘life’ of three years (1994-1997). In May 1997 Cabinet approved and published a revised set of SRAs for the period 1997-2000. Since 1994 each department has developed its own annual set of KRAs to meet the SRAs.

The Prime Minister expressed concern in 1998 about the responsiveness of the Public Service to the Government's strategic goals, and related problems with the co-ordination of policy and service delivery. In addition commentators such as Professor Schick have highlighted a number of issues around the current strategic management system. The following weaknesses were identified:

- a lack of clarity about Government's strategic objectives;
- a lack of leadership for individual objectives;
- a lack of co-ordination across Government's strategic priorities;
- weak intervention logic from outputs to outcomes to SRAs; and
- little double-loop learning (information, monitoring and evaluation feedback).

As a result a proposal was developed to enhance the strategic management system which is being implemented to drive Government priorities for 1999-2000. The proposal has two key elements:

⁷ In mid 1993 the National party was the sitting government. They were re-elected in the elections held at end of 1993.

- a clearer expression of Government priorities as a device to concentrate the scarce energies and resources of Government; and
- explicit leadership from Ministers and key chief executives in priority policy areas that require inter-agency co-ordination.

In December 1998 Cabinet agreed ten Strategic Priorities (SPs) “Goals and Priorities 1999-2002” and the Prime Minister nominated four teams of Ministers tasked with achieving progress against these priorities. The aim is to achieve a keener focus on outcomes by the formal establishment of networks of Ministers and departments.

In parallel the Prime Minister announced changes to Cabinet, including the introduction of three new portfolios; Minister of Social Services, Work and Income; Minister for Enterprise and Commerce; and Minister for Food, Fibre, Biosecurity and Border Control. This change gives each of the new Ministers overall charge of a group of related portfolios and was designed to lift the Cabinet's vision above portfolio issues to the outcomes sought by the Government.

The approach seeks to strengthen a number of features that have been identified as important, such as the need for better specification of Government Strategic Priorities and improved evaluation.⁸ The results of this approach is currently being monitored. At the time of writing the new approach has been applied to the strategic setting part of the cycle, and indications are that:

- Cabinet is now more focused on its strategic priorities and has greater ownership than under the previous SRAs;
- There have been problems in translating the priorities into the Public Service because departments have had difficulty in converting the priorities into outcome indicators;
- Coordination across the Public Service seems to be improving as departments (via the teams) focus their efforts on contributing to cross-portfolio outcomes; and
- It is too early to say whether monitoring and evaluation are focused on outcomes, but the quality of ex ante intervention logic⁹ is much improved.

Monitoring will continue throughout the cycle so that adjustments can be designed as required. We know improvements rest on a systematic evaluation capacity that is currently lacking in the New Zealand system. It is hoped that by increasing the demand for evaluation, the networks will create the incentives needed to encourage the development of this capacity within the Public Service. Central agencies need to play a role in facilitating and disseminating ‘good practice’, which includes encouraging appropriate evaluation.

⁸ For a full discussion of these issues see State Services Commission, *A Better Focus on Outcomes through SRA Networks*, State Services Commission Occasional Paper Number 3, 1998.

⁹ Departments are required to state the connection between their proposed activities and progress against achievement of SPs.

Less reliance on structural change

The State Services Commission is near to completing a major review of Machinery of Government principles for the State sector. Tentative conclusions on structure include:

- the existing model for the State sector provides a sound basis for ongoing evolution;
- structure will not solve all strategic co-ordination problems;
- structural change has not always delivered the expected improvements in responsiveness;
- structural change is nearly always more expensive than anticipated;
- there is a limit to the amount of structural change that can be absorbed by a bureaucracy at one time without a loss of strategic focus; and
- New Zealand and international experience suggests that structural remedies do not necessarily result in reduced costs of government.

The use of structural change as a way to improve responsiveness to strategy should be thought through carefully and in the broadest context. Consideration of structural change should include:

- thorough exploration of the presenting problems of coherence or capability that appear to be driving the call for structural change;
- full consideration of the non-structural options that might address those problems;
- assessment of proposed changes in the light of Machinery of Government principles and New Zealand and international experience;
- assessment of the consequences of structural change in terms of the entire State sector¹⁰; and
- an understanding of how the new structure fits into the overall shape of a strategically focused Public Service.

These conclusions suggest that major structural change should be the option of last resort as a tool to build a Public Service that is more responsive to the strategic objectives of Government. Furthermore, the option of structural change should be considered within the broad context of overall State sector capability.

The State Services Commissioner has recently commented that most of the major gains, either in efficiency or responsiveness, from system-wide structural change alone have been realised. He warned of the dangers of slipping into “a ‘restructuring culture’ - a culture in

¹⁰ The State sector includes 37 Public Service departments, the various state owned enterprises and a broad group organisations known as Crown entities (there are approximately 181 key Crown entities, however, if school boards of trustees, reserves boards and Crown entity subsidiaries are also taken into account there are between 3020 and 3030 Crown entities in total).

which we reach for the restructuring option instinctively, regardless of the nature of the problem we are trying to solve.”¹¹ The Commissioner advised that there is a need to shift from an emphasis on structural change as the principal lever for performance improvement, to a recognition of the relative benefits of both structural change and capability improvement.

Ongoing systematic review of the state of public management

The three central agencies perform an important role in keeping the performance of the State sector under review. They meet regularly to discuss and deal with matters relating to the overall management, performance and co-ordination of the Public Service.

As part of this systematic review, the State Services Commission is developing a capability assessment process. Capability is the appropriate combination of resources, systems and structures necessary to deliver a specified level of performance and can be defined as:

- the appropriate types, levels and combinations of competent people, knowledge, funds, technology, physical assets and other **resources** (including intangible resources such as organisation’s culture and its relationships);
- deployed and controlled through appropriate **systems** of management, production processes and communications systems;
- occurring within appropriate organisational and governance **structures**; and
- required to deliver specified levels of **performance** in pursuit of the organisation’s objectives.

The new system aims to develop a process that is prospective rather than retrospective, to assess how departments are preparing for the future and to assist departments to assess their own capability. Importantly the intention is that the capability system will be adopted by departments as a useful day to day management tool rather than simply being complied with as an externally imposed assessment process.

It is hoped that a Public Service capability assurance system will contribute to the management of a number of issues currently confronting government. These include the need to:

- enhance the ability of the Public Service to help achieve government objectives, both strategic priorities as articulated in the Strategic Priorities and departmental purchase agreements;
- manage a government’s ownership interest in departments so that they are capable of the long-run, cost effective delivery of the results required of them¹²;

¹¹ State Services Commission, *Annual Report of the State Services Commission for the Year Ended 30 June 1998*, 1998.

¹² Current thinking on the Government’s ownership interest in the Public Service defines it as having four strands: strategic alignment; integrity of the Public Service; assurance of future capability; and cost effectiveness over the long run.

- ensure the existence of a flexible, responsive Public Service able to adapt successfully to rapidly changing circumstances whether these be social, economic, technical or political; and
- ensure the success of the network model and the other co-ordinating arrangements needed for effective multi-agency contribution to the Government's goals.

CONCLUSION

The objectives of New Zealand reform have centred around effectiveness, efficiency, accountability, transparency and consistency. Key elements of the reform have included:

- the application of clearly articulated principles of reform;
- the corporatisation and privatisation of government trading enterprises;
- departmental restructuring to rationalise the functions and shape of the core Public Service and improve performance, particularly by separating policy advice, service delivery and regulatory functions, and related to this the separation of the roles of funder, provider and purchaser;
- decentralisation of departmental management with chief executives responsible for decision-making on selection and purchase of inputs;
- an increased use of contracts; and
- a change in the basis of State sector financial management from a focus on inputs to a focus on outputs and the introduction of accrual accounting.

Three lessons from the New Zealand experience of reform stand out:

- there must be acceptance that there is a problem;
- political commitment is vital at key points; and
- leadership from chief executives of government departments is essential.

Although the pace of reform in New Zealand has now slowed, the process is continuing with evolutionary change and improvements to the new systems of public management being made.

Appendix 1

Economic & Public Management Reforms Enacted Between 1984 and 1991

Industry and Service Sectors

Finance

Abolition of credit growth guideline
Removal of separate requirements for trustee banks, building societies, finance houses, and stockbrokers
Removal of quantity restrictions and other entry barriers to banking
End of formal financial controls (reserve ratio requirements, sector lending priorities)
Removal of ownership restrictions on financial institutions
Liberalisation of stock exchange

Energy

Corporatisation of state coal mines
Financial restructuring of oil refinery
Legalisation of oil company ownership of service stations
End of price control (except on natural gas)
Sale of state natural gas exploitation/distribution interests
Sale of other state energy holdings
Corporatisation and restructuring of electricity generation, transmission, and distribution

Transport

Removal of restrictions on road and rail carriage
End of quantity licensing of trucking
Corporatisation of state rail, air, and bus services
Tendering of local authority bus services and liberalisation of licensing requirements
Deregulation of taxi industry
Opening up of domestic aviation industry
Granting of number of landing and on-flying rights to foreign airlines in New Zealand
Corporatisation or sale of airports and Airways Corporation
Corporatisation of ports
Deregulation of stevedoring industry
Removal of cabotage on coastal shipping

Research and Development

Removal of concessions for research and development to put on equal footing with all investment
Cost recovery of public research and development work
Establishment of contestable pool of public funds (Foundation of Research, Science and Technology)
Corporatisation of government research bodies (Crown research institutes)

Labour Market

Introduction of voluntary unionism
More market-based bargaining under Industrial Relations Act Amendment
Some contestability in union coverage under Labour Relations Act

Radical reform via Employment Contracts Act (voluntary unionism, contestable unions of any size, and any arrangements for employer/employee bargaining at joint or individual level)

Product Markets

Termination of supplementary minimum prices on agricultural products

Agricultural tax concessions removed

Termination of concessional financing of primary producer stocks held by producer boards

Review of compulsory producer marketing board arrangements

Termination of domestic boards for eggs, milk and wheat

Termination of export market development incentive schemes

Phase out export performance tax incentives

Industrial Regulations

End of wage/price freeze

Termination of price control and replacement by (unused) price surveillance powers under Commerce Act

Removal of quantity licensing on almost all industries, and end of quality regulation on most industries

End of all state-regulated monopoly rights (except letter post, air traffic control, and milk distribution)

Removal of some occupational licensing

Removal of producer co-operative tax advantages

Termination of restrictions on shop trading hours

Business Law

Establishment of Commerce Act as liberal, efficiency-based regime to govern mergers and trade practices

Fair Trading Act governing consumer rights

Review of securities legislation and take-over law (extent of efficiency approach still under discussion)

Review of intellectual property regime (patent, copyright, trademarks, and designs acts)

Review of town and country planning

Resource Management Act to govern more liberal planning and environmental legislation

Crown Minerals Act to clarify property rights to mineral resources

International Trade and Monetary Policy

Import Protection

Phasing out of important licensing requirements

Reduction of import tariffs according to Swiss formula, to 10 percent from an average of 28 percent

Additional one-third reduction in import tariffs

Removal of special protection features for 18 specific “industry plan” sectors and incorporation into general tariff reform program

Reduction of tariffs on two remaining “special” industries (motor vehicles and components; and textiles, clothing, and footwear)

International Capital Controls

Removal of controls on external investment/borrowing

Free entry of foreign direct investment (approved by New Zealand Overseas Investment Commission)

Very liberal regime for portfolio investment and repatriation of profit

Exchange Rate Controls

Deregulation of foreign exchange trading

Twenty percent devaluation against basket of currencies

Free float of currency on foreign exchange markets without direct control

Monetary Policy

Devotion of monetary policy instruments to deflation, with target of price stability (0 to 2 percent price increase) by 1992-93

Tight monetary policy (M3-growth held below rate of inflation)

Independence of Reserve Bank from the Government, formalised through Reserve Bank Act

Government Sector

Government Trading Enterprises

Removal of almost all state-regulated monopoly rights

Corporatisation of 24 state-owned enterprises (in transport, finance, tourism, forestry, broadcasting, utilities, and service industries)

Restructuring to isolate natural monopoly elements of state-owned enterprises

Full or partial privatisation of Air New Zealand, Bank of New Zealand, Petroleum Corporation, Tourist Hotel Corporation, Shipping Corporation, Rural Bank, Government Life, Forestry Corporation, Post Office Bank, Telecom Corporation, and others

Further privatisation planned via divestment of asset sales, sale of rights, share sales, etc.

Requirement for local authorities to corporatise local authority trading enterprises (LATEs) and tender out services

Encouragement to local authorities to sell holdings in airports, port companies, and local utilities

Sale of other assets, for example, irrigation schemes and fishing rights

Taxation

Broadened tax base through Goods and Services Tax on virtually all final domestic consumption without exception (now 12.5 percent)

Flattening and lowering of personal income tax rate, with top rate standardised to corporate tax levels and aimed to minimise poverty traps

Standardisation and simplification of corporate taxation to minimise evasion and cut administrative costs

Removal of most other indirect taxes

Removal of tax concessions for savings, etc., to put on neutral footing

Expenditure Control

Attempts at reduction in government expenditure, especially in areas of administration and industry development

Assignment of proceeds of sale of state-owned enterprise assets to repay public debt

Public Sector management reform through Public Finance Act
Reform of core government departments on corporate lines through State Sector act of 1988, with separation of policy, provision and funding
User-pays principles for remaining state trading activity
Redesign of government accounts on more commercial basis, accrual accounting, and output-based monitoring systems through Public Finance Act
abolition of 50 quasi-non-governmental and quasi-governmental organisations
Renewed attempt at reduction in social spending (education, health, social welfare, and superannuation)

Social Services

Reforms of compulsory education system, based on elected boards of trustees
Quasi-corporatisation and fee-paying for tertiary education institutions
Integration of state housing assistance into private sector rental and mortgage provision
Tightening of requirements and reduction of levels of unemployment benefits and other government social transfers
Tightening of requirements, extension of age, and reduction of benefits for government-funded old-age pension scheme
Separation of funding from provision of state health services, establishment of Crown health enterprises, and expectations of private sector crowd-in
Likely development of private funding arrangements for health provision

Adapted from Scott, Graham C., 1996, *Government Reform in New Zealand*, IMF.

Appendix 2

State Owned Enterprises Established in 1986 under the State Owned Enterprises Act 1986

	<i>Current status</i>
Air New Zealand	Privatised
New Zealand Railways	Privatised
Petroleum Corporation	Privatised
Tourist Hotel Corporation	Privatised
Shipping Corporation	Privatised

New State Enterprises Established in 1987 under the State Owned Enterprises Act 1986

	<i>Current Status</i>
Airways Corporation	SOE
Coal Corporation	SOE (scoped for sale)
Electricity Corporation	SOE (split into component entities)
Government Property Services	SOE
Land Corporation	SOE
Forestry Corporation	SOE (forests sold)
New Zealand Post	SOE
Post Office Bank	Privatised
Telecom Corporation	Privatised

State Owned Enterprises at May 1999

Agriquality New Zealand Limited	
Airways Corporation of New Zealand Limited	
Assure New Zealand Limited	
At Work Insurance Limited	
Crown Forestry Management Limited	
Electricity Corporation of New Zealand Limited	
Genesis Power Limited	
Land Corporation Limited	
Meridian Energy Limited	
Meteorological Service of New Zealand Limited	(scoped for sale)
Mighty River Power Limited	
New Zealand Post Limited	
New Zealand Railways Corporation	
Solid Energy New Zealand Limited	
Television New Zealand Limited	
Terralink New Zealand Limited	
Timberlands West Coast Limited	
Trans Power New Zealand Limited	
Vehicle Testing New Zealand Limited	(scoped for sale)

Appendix 3

Departments as at July 1984

Ministry of Agriculture & Fisheries	Lands and Survey Department
Audit Department	Legislative Department
Commission for the Environment	Maori Affairs Department
Crown Law Office	Post Office
Customs Department	Prime Minister's Department
Ministry of Defence	Public Trust Office
Education Department	Department of Scientific & Industrial Research
Ministry of Energy	Social Welfare Department
Ministry of Foreign Affairs	State Insurance Office
New Zealand Forest Service	State Services Commission
Government Printing Office	Statistics Department
Health Department	Tourist and Publicity Department
Housing Corporation	Trade and Industry Department
Inland Revenue Department	Ministry of Transport
Justice Department	Valuation Department
Labour Department	Ministry of Works and Development

Departments abolished, corporatised, or privatised July 1984- July 1995

Ministry of Agriculture & Fisheries	Lands and Survey Department
Ministry of Defence	Legislative Department
Department of Education	Maori Affairs Department
Ministry of Energy	Ministry of Maori Affairs
Commission for the Environment	Post Office
Department of Foreign Affairs	Prime Minister's Department
New Zealand Forest Service	Department of Scientific & Industrial Research
Government Printing Office	State Insurance Office
Department of Health	Tourist and Publicity Department
Housing Corporation	Trade and Industry Department
Iwi Transition Agency	Ministry of Works and Development
Department of Justice	

Departments as at May 1999

Ministry of Agriculture & Forestry
Audit Department
Ministry of Commerce
Department of Conservation
Department of Corrections
Department for Courts
Crown Law Office
Ministry of Cultural Affairs
Customs Department
Ministry of Defence
Ministry of Education
Education Review Office
Ministry for the Environment
Ministry of Fisheries
Ministry of Foreign Affairs & Trade
Ministry of Health
Ministry of Housing
Inland Revenue Department
Department of Internal Affairs

Ministry of Justice
Department of Labour
Land Information New Zealand
National Library
Ministry of Maori Development
Ministry of Pacific Island Affairs
Department of Prime Minister & Cabinet
Public Trust Office
Ministry of Research, Science & Technology
Serious Fraud Office
Department of Social Welfare
State Services Commission
Department of Statistics
Ministry of Transport
Treasury
Ministry of Woman's Affairs
Department of Work and Income
Ministry of Youth Affairs