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You Say You Want a Revolution ...

The Next Stage of Public Sector Reform in New Zealand

Over the past 30 years New Zealand's system of public management has seen a number of positive changes, both systematic and incremental. That process made New Zealand a world leader in public management. Despite this, it remains difficult to gain traction on some of the most complex problems in society. Further, citizens have begun to demand more from their public service than just outputs and efficiency. In order to continue the positive trend of the previous decades, the system must evolve to appreciate the importance of outcomes and effectiveness.

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A brief look at the evolution of the public management system in New Zealand shows the need for further reform. Two periods in its history are highlighted: the emergence of a classic bureaucratic model in the early 20th century, followed by the managerial reforms in the 1980s and 90s. They laid the groundwork for future development, but also show the current constraints against which public servants are struggling.

Where the system has come from

In the early 20th century the bureaucratic model was seen as the most efficient system possible for any public service, notably by Max Weber (Gerth and Wright Mills, 1991). As this model became the norm for public services around the world, it proved effective in reducing patronage and corruption. In New Zealand, political patronage was a particular motivating factor in the adoption of the model,¹ a process that resulted in the Public Service Act of 1912 (Walsh, 1991). Prescribing a rigid set of processes, rules and hierarchies achieved equity, integrity and procedural due process in the public service.

In practice, this meant hard constraints on managers. Control was centralised at the top of a strict hierarchy, with input control as a strong focus (Norman, 2003). As the Treasury argued (1987, 58), 'the tendency [was] to keep managers' discretion to a minimum'. Strictly enforced procedures for the state sector to follow were set out in Treasury instructions and the Public Service Manual, which would sit alongside other procedural instructions. For example, the Department of Social Welfare had its own set of internal manuals for staff. Centralisation was so extensive that even simple tasks, such as approval for staff promotions, involved long delays.

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By the 1980s the public service was seen as oversized and inefficient (Boston et al., 1996). Customer service was poor, human talent was stifled and innovation was near zero. The 'new public management'² reforms of the 1980s and 90s introduced managerialism to the public service. Notable legislation included the State Sector Act 1988 and the Public Finance Act 1989. The reforms retained core components of the bureaucratic model, such as the merit principle and due process, but added features such as:

- a performance management system aimed at improving efficiency and customer service
- redefined ministerial roles: the selection of outcomes, purchase of outputs from appointed chief executives
- chief executives having control over inputs within prescribed budgets to deliver outputs in the form of products and services
- structural change that clarified objectives, primarily by separating policy from operations, and encouraging competition where possible

- decision making pushed down closer to clients.

After the reforms of the late 1980s were implemented, state services became more efficient, productive and responsive. With the bureaucratic model's constraints largely discarded, human potential within the public sector was freed up, fostering creativity and innovation. New performance management methods delivered significant improvements in the services provided to New Zealanders. For example, in the newly-formed Income Support Service, one performance indicator was turnaround time: this combined with a new information technology system to reduce the average

processing time from 13 days to 24 hours within two years. Similar methods used at the New Zealand Employment Service increased job placements threefold between 1988 and 1992 (Norman, 2007). Two decades on, this model continues to be leading-edge around the world.

The case for reform

The managerial reforms were a resounding success in delivering outputs with high levels of efficiency. As a result, they continue to have enduring appeal. However, government is about more than simply providing good customer service and delivering products and services efficiently. If that was all, then in many areas the private sector could do the job. But governments get involved in service delivery because citizens demand that complex problems are resolved effectively. They want better results, or outcomes.

Outcomes have always been a part of the theory behind the current system. However, in practice the current system prioritises the efficient delivery of outputs to such a degree that in some cases it comes at the expense of better

outcomes. This is particularly true when public finances are tight (Ryan, 2011). Performance improvements since the 1980s have created the opportunity to evolve the system further by complementing managerial efficiency with effectiveness. Although not an academically robust concept, the difference between 'bottom line' and 'top line' demonstrates what efficiency and effectiveness look like in practice. This approach strongly resonates with frontline staff.

The bottom line is about delivering outputs as efficiently as possible and being accountable for that delivery. Work and Income case managers, for instance, work to get good job matches for their clients and make placements. Benefit payments should be of the right amount, made on the right day and to the right person. The top line, however, speaks to effectiveness and outcomes. From the Work and Income case manager's perspective, success at the top line depends on whether a particular job placement leads to sustained employment. Achieving that 'intermediate' outcome lets clients get on with life.

Moore's (1995) concept of 'public value' justifies attention to the top line. Legitimacy and support for public service activity comes from the value it provides to citizens and their representatives. Public value may be difficult to quantify, but we know it when we see it. For example, neighbourhoods appear safer, people move from welfare to work, or more children are immunised. The challenge for public managers is to establish what interventions are required to achieve those outcomes and then implement them.

Efficiency at the bottom line increases the public service's capacity to achieve better outcomes. If benefits are not paid on time, then it becomes harder to alleviate poverty. If individuals are not matched to jobs, then it becomes harder to reduce unemployment. At present, however, the importance of a top-line focus is not fully understood. Efficiency and customer service only go so far in ensuring that interventions are effective. A swift job placement that does not result in sustained employment cannot be considered a good outcome for that individual. Ensuring effectiveness requires

a longer-term view than the current system encourages. Solving complex societal problems often requires a range of interventions centred on a particular individual, family or community. This almost always requires collaboration between agencies.

At present the public management system restricts 'joined-up' work, that is, long-term initiatives involving the co-operation of two or more government agencies. To change this, the current output focus should be complemented by an equally strong focus on outcomes; efficiency should be complemented with effectiveness. This requires agencies to collaborate with each other while keeping the efficiency gains achieved through managerial reforms (see Figure 1). Doing that entails a change in the capabilities required in the public service. It is not only management along lines of vertical accountability that is needed, but also leadership across sectors where straight-line authority would otherwise be an impediment.

Agency silos and the bottom-line focus constrain public servants because they prevent effective collaboration. This prevents them from tackling complex problems effectively. Instead, they rely heavily on remedial interventions such as benefit payments. That means societal problems are not reduced in scale and demand ongoing government expenditure. These implications are demonstrated in the social sector, which includes health, education, justice, social security and benefits. Expenditure in this sector made up approximately 75% of core Crown expenditure in 2010-2011 (Treasury, 2011a), or around a quarter of overall GDP. A large proportion of this is targeted at servicing the symptoms of underlying problems. Often this does not address the causes of the problem, meaning that delivering those services even more efficiently is unhelpful beyond marginal gains. Surprisingly, little progress has been made in tackling social problems early in life.

Partially at fault is the incentive structure of the present financial model. It encourages a patchwork quilt of interventions from different agencies that are short term and remedial (for

example, building more prisons). Instead, longer-term sustainable gains can be achieved by investing early in the life of the person or the problem. To do this investment should be seen from a longer-term perspective. For example, the public service should think not only about more efficient ways of operating a prisons service (the bottom line), but about what measures are required to lower crime (the top line) and avoid having to build as many prisons in the first place.

The Integrated Service Response, an initiative operated under the responsibility of the Ministry of Social Development, applies a joined-up approach to deal with the problems affecting at risk individuals and families.

Implications for public management system design

Organisational design

Attempts to improve effectiveness have already been made in the social sector. The Integrated Service Response, an initiative operated under the responsibility of the Ministry of Social Development, applies a joined-up approach to deal with the problems affecting at-risk individuals and families. The response is operated through centres known as Community Links, which bring together a range of support agencies around a client. Community Links provide those agencies with a common view of the client's requirements, avoiding duplication and increasing intervention effectiveness.

The Integrated Service Response shows the benefits of cross-agency collaboration. However, it also demonstrates the constraints imposed by the current system. Parties do not have ownership of joint work, or a genuine shared stake. The integrated approach evident in Community Links is possible only because of the willingness of front-line staff to work together in this way. Ownership, and hence accountability, continues to reside within a single agency.

Through the social sector the government is also trialling a new joined-up approach to social service delivery. These trials let an individual or non-governmental organisation decide how best to use government funds to improve the outcomes of young people. In theory, this devolution should join up both funding and decision making across agencies, and they then improve outcomes that are the focus of other departments, such as Education or Justice. However, in practice all responsibility is transferred to a

single minister and a single appropriation in the Vote³ of a single agency. For social sector trials, that agency is the Ministry of Social Development. Any attempt to join up accountability has no legal grounding under the current system. This suggests a lack of organisational options.

Indeed, ministers face a binary choice: loose collaboration, or full structural integration. Loose collaboration is heavily dependent on the personal commitment of individuals involved, and ownership is seldom shared effectively. That issue is only crudely resolved by the current alternative, full structural integration. Effort spent merging and de-merging agencies is often out of proportion to the problems being addressed. Hard structural solutions also serve to reinforce the limits of vertical accountability.

The private sector does not face this dilemma. Where firms require other firms' expertise to achieve a shared outcome, they are able to turn to models such as joint ventures or consortia. They do not need to resort to mergers or sharing information. This ensures that risks and benefits are shared, and each firm's stake is proportionate to the level of collaboration required.

Achieving effective outcomes in the public sector requires similar flexibility. This requires, notably through amendments to the State Sector Act, the provision of a range of options ranging between the extremes of loose collaboration and full structural integration:

- loose collaboration
- mandated sectoral grouping
- joint venture
- semi structural integration
- full structural integration.

Loose collaboration describes most joint work currently undertaken in the public sector. This includes establishment of officials' groups and working groups.

[In the private sector] ... consortia and joint ventures allow for shared investment, risk and responsibility; boards enable collective legal accountability for the governance of the enterprise.

Information is shared between separate agencies, which allows for coordination, although their work remains separate. Accountability and priorities remain separate and remain with individual agencies and their respective ministers. This option is particularly useful where there is a clear lead agency and investment need not be shared.

Mandated sectoral grouping is an emerging new approach. This involves grouping individual agencies into sectors, with individual chief executives established as sector leads. Formal expectations and performance assessment set by the state services commissioner would include a specific reference to both their sector and their individual agency, encouraging collaborative work. The sector leader would be involved in the setting of expectations and reviewing the performance of other departmental heads within their sector.

Joint ventures would be possible where a greater level of integration is required. This option is currently unavailable in the public sector. Under this option, chief executives would join up ownership

and accountability through a legally-binding board structure. This would enable subsidiary departments, which could be 'real' (parent departments collectively funding a separate business arm) or 'virtual' (capacity provided jointly), pooling investment, risk and accountability. An ideal scenario for this model is one where the issues are interconnected, investment needs to be shared and the outcomes are shared by different agencies.

Semi structural integration involves establishing operational units under larger parent departments, with the operational units enjoying some degree of autonomy. Separate boards, including independent

directors, would have responsibility for governing those business arms. While this would be a new option for the New Zealand public service, in the United Kingdom such arms are known as executive agencies.⁴ This reduces fragmentation and improves economies of scale without sacrificing flexibility.

Finally, *full structural integration* would involve the structural merger of related functions into a new or existing department. This is warranted in situations where significant change is needed to bring different capabilities, leadership and expertise together for the foreseeable future.

Accountability

In the current output-driven system, accountability is based on vertical silos. Opening up to joined-up work calls for a change in the way accountability is approached. As these arrangements change incentive structures, a new model should encourage horizontal integration and collaboration.

This is evident in the private sector. Consortia and joint ventures

allow for shared investment, risk and responsibility; boards enable collective legal accountability for the governance of the enterprise. Yet in the public sector there is no such model; chief executives are solely accountable for their agency's remit, which encourages a singular focus. At present the State Sector Act does not provide for the adoption of other models, though access could be provided with the necessary amendments.

The current financial management framework acts as a further impediment to ownership of joint work (see Boston and Gill, 2011). The single agency Vote system over-emphasises bottom-line concerns and does not have the flexibility required for collective accountability. As the financial management system works along vertical lines, there is little incentive to work horizontally, particularly where it affects the production of outputs.

Funding on a short-term basis encourages agencies to focus only on the efficient production of outputs. A financial management system that takes outcomes equally seriously needs to recognise the longer-time horizon required to achieve effectiveness. Taking a multi-year approach is likely to highlight benefits missed under the current system. Agencies seeking funding for a suite of interventions should collectively be able to borrow in the short term against the downstream benefits that result when better outcomes are achieved.

Performance management

Performance frameworks inform accountability. A well-functioning framework ensures that all parties have clear expectations set and understand what is expected of them (Ryan and Walsh, 2004). Indicators of performance also inform decisions about resourcing and the scaling of activities. Currently the focus is on performance reporting; in an outcomes approach this would be complemented by evaluation.

Previous attempts at establishing an outcomes focus, such as 'managing for outcomes', were not sustained because performance measures were not as rigorous as measurements for output production. An outcomes approach will require a different kind of performance framework, incorporating the main

features of output measurement in an outcomes model. The key differences between the current system and outcomes-based performance management are elaborated in Table 1.

New ways of tackling performance management will require the public sector to:

- develop strategy across sector groups
- describe outcomes so they can be reliably measured
- improve the use of evaluation as a tool to inform performance frameworks and measure success.

This requires a change in the way success is understood at present. The outcomes currently presented in agency Votes are often lofty and seldom achievable. Examples from the 2011 Votes include: ‘a fairer, more credible and effective justice system’ (Justice), ‘improved quality of life for older people’ (Social Development), ‘dynamic and trusted markets’ (Economic Development), and ‘maximise the potential of all New Zealanders, by ensuring they have the skills and knowledge needed to succeed’ (Science and Innovation) (Treasury, 2011b). These remain well beyond the capability of any reasonable performance management framework.

‘Intermediate outcomes’, such as reducing truancy or youth offending rates, have practical meaning that allows them to be measured in real time across specified periods, complementing ex ante output specification with ex post evaluation. However, this forces public managers to change their understanding of why accountability is necessary and how it should work. This speaks to a wider issue in New Zealand public management.

Culture

System-wide reform is likely to meet resistance. It challenges beliefs that are deeply embedded in the current system: sirens and red lights go off, and the antibodies kick in. This is entirely understandable. A large number of people spent a considerable part of their careers advocating and implementing changes that created the current management system. The organisational culture in the core public service reinforces the

Table 1: Differences between output-based and outcomes-based performance management

Current system	Outcomes approach
Interested in outputs	Interested in outcomes
Measurement based on reporting	Measurement based on evaluation
Success can be measured by performance in short term (i.e. completion of output)	Success is better measured by performance over medium term (i.e. effectiveness of outcome)
Individual agency accountability for delivery of outputs	Shared accountability for delivery of outcomes

current system. At the middle level there is a reluctance to engage in joined-up work because of the incentive structures currently present: parties are averse to integrated working if it threatens agency output delivery, funding or autonomy.

There is good reason to fear a stalling of progress. The greater the attachment to the current system, the harder it becomes to see beyond it. ‘Reform’ becomes little more than buffing and polishing the current system. Progress on outcomes cannot be made if the public service is attached to vertical accountability, with a single individual in charge of individual agencies. That requires a cultural change, particularly in Wellington.

This concept is largely accepted by front-line public servants, and innovations such as the Integrated Service Response are a result of their motivation. Yet this is not being mirrored in Wellington, frustrating front-line staff. Stifling innovation at the front line impedes the customisation of services to clients and blocks progress on outcomes. Part of the cultural change needed can be achieved through legislative amendments that signal a change in accountability arrangements. While the current Public Finance Act supports funding across time periods, amendments would encourage public managers to think beyond annualised output delivery. State Sector Act amendments, as described earlier, would similarly change the incentive structure of public managers.

Making the most of technology

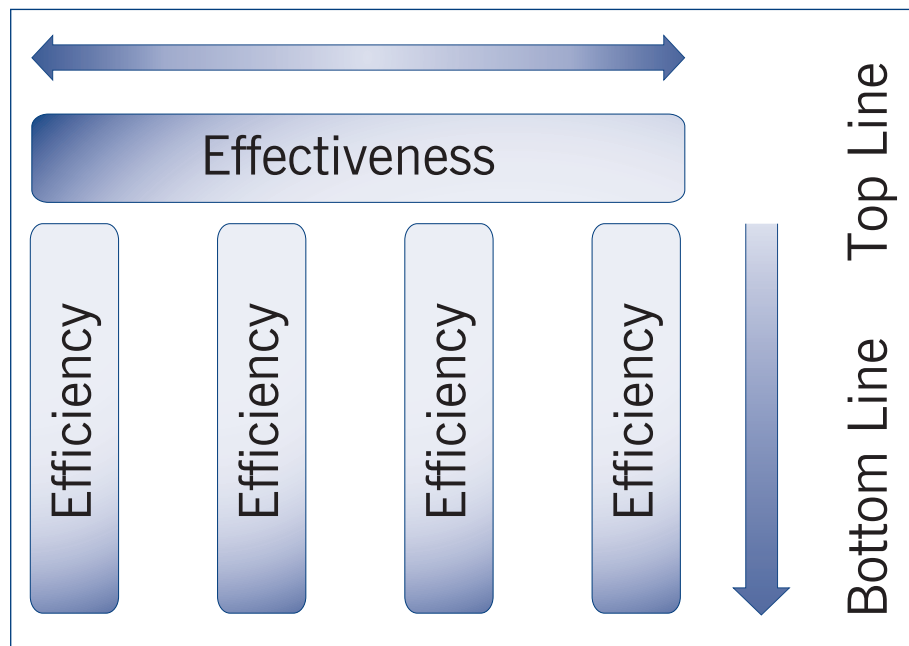
Horizontal integration is highly dependent on the information base from which it operates, and can only work if information is freely available. This requires information ‘pooling’ and using information and communication technology (ICT), which is a step up from the current information-sharing process.

Under the current model, the focus is on matching data for administrative efficiency and compliance. This approach is useful only if you already know what data you are looking for; hidden problems continue to go unknown and intervention effectiveness is reduced.

It is important in effective collaboration for involved agencies to share a common client view, which information pooling enables. Agencies would take information from other agencies’ data sets and apply it to their own needs, which provides managers with a more complete picture of a client, allowing for otherwise hidden problems to emerge. Good information is critical if long-term investment to solve complex problems is taken seriously; with it, interventions can be delivered earlier.

ICT will enable the transformation to joined-up working, but for two reasons its adoption at present is insufficient. First, while the focus of the Privacy Act supports the matching of data, which will still be necessary for administrative efficiency and compliance, a joined-up approach requires information pooling. Second, pooling of data is inhibited by a lack of common ICT standards across agencies. Addressing these issues will enable ICT to support a citizen-centred approach by creating virtual organisations centred on individuals, families and communities. In Community Links, off-the-shelf case management software was adopted and data from relevant agencies, including non-governmental ones, were put onto the software. Each of those agencies had the same view of the client, the plan and the interventions being applied. This shifted the problem to interfacing their legacy systems with that common system, a much better problem to have than the absence of a shared client view. Under this approach, ICT defines the boundaries of organisations, rather than their physical organisational structures.

Figure 1: Managing for the top line: effectiveness across agencies



The future

Implementing these changes will be difficult technically, managerially and individually. But there are good reasons to persevere with them. Ministers and citizens are demanding better services for less. Citizens are also demanding that they have a greater say in the services they receive. This does not mean more consultation; it means greater service personalisation and co-production. 'Efficiencies' and cost cutting, while sometimes necessary, do not address citizens' demands because that approach fails to remove barriers to effectiveness in the public service.

In many cases, joined-up working is far more effective than working in agency silos. This insight is already becoming accepted among front-line public servants, but to progress further it needs mandating from the centre in Wellington. Among other things, it requires a cultural change, possibly the toughest obstacle to overcome. Nevertheless, it will allow for greater front-line creativity and innovation, and build public value.

For social services, reform would let the public service act as a large network focused around clients. With a stronger information base, supported by ICT,

'virtual' organisations will be built around individuals, families and communities. When clients' needs change, the network will respond seamlessly. The social sector has already begun this transition. Community Links are integrating non-governmental organisations, schools, district courts and primary health care providers into a single, joined-up response. However, the public management system currently limits potential in this area.

The fruits that come from success will make the struggle worthwhile. It will unlock a huge amount of human potential and creativity in the public service that can be applied to problems in New Zealand that have long remained intractable. Progress on these issues will make a huge difference to tens of thousands of New Zealanders, their families and their communities. That makes it worth struggling with.

- 1 However, patronage tended to be limited to lower levels of the New Zealand public service, such as in the Post Office and Railways, and was not systematic at higher levels (Treasury, 1987).
- 2 For a review of the New Public Management reforms, see Boston et al. (1996), Schick (1996), Scott (2001), Review of the Centre (2001) and Norman (2003).
- 3 Votes are groups of appropriations for individual agencies presented as part of the Budget process.
- 4 For example, the Department for Work and Pensions delivers its services through three Executive Agencies: the Pensions Service, Jobcentre Plus and the Disability and Carers Service.

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