

POLICY Quarterly

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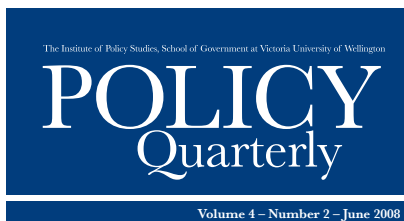
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Co-Editors: Jonathan Boston, Robert Gregory

Editorial Board: Karen Baehler, Paul Callister, Russell Harding

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Editorial Note

Twenty years ago, New Zealand's public sector was radically and rapidly reformed by the State-Owned Enterprises Act (1986), the State Sector Act (1988), the Public Finance Act (1989) and related policy measures. These reforms were dramatic, ambitious, bold, comprehensive and, not surprisingly, controversial. Significantly, most have survived the test of time. And many have been replicated, to one degree or another, elsewhere – both in developed and developing countries. This represents a remarkable legacy.

The five papers in this special issue of *Policy Quarterly* are a sample of more than 20 presented at a major conference held in Wellington in late February 2008 on the subject: 'After the reforms: Where are we now? Where are we heading?'. The conference, which focussed on the long-term impact of the public management reforms of the 1980s, was jointly hosted by Victoria University's School of Government and the Institute of Public Administration New Zealand and supported by the Australia and New Zealand School of Government, the State Services Commission and the Treasury. A special contribution to the debate came from the participation from 35 senior public servants from developing countries within the Commonwealth, who were in Wellington for a two-week seminar. This latter event has been held annually since the mid-1990s to respond to the significant and continuing international interest in New Zealand's reforms.

Thanks to the energetic efforts of the conference director, Alastair Bisley, the 150 participants were treated to a comprehensive range of perspectives from practitioners and academics. Internationally, New Zealand still stands out for the extent to which its public sector has used private sector techniques to devolve authority to managers and to hold them accountable for achieving results. In an election year, both the conference and this selection of published papers contribute to an important debate about the size and performance of the public sector and how to ensure that the major reforms of the late 1980s are properly reviewed and, where appropriate, modified and refreshed.

This issue of *Policy Quarterly* commences with a detailed contribution by Graham Scott, one of the leading architects of New Zealand's public sector reforms. In this article, he critically assesses what has happened within the public sector since the early 1990s and highlights a range of significant issues which, in his view, require attention by policy makers. His analysis is wide-ranging, penetrating and, at times, provocative. While not all will agree with his diagnosis and prescriptions, there can be little doubt that he identifies some crucial 'hot spots' within the current framework of public management that need addressing.

The next article is by Kevin Brady, New Zealand's Controller and Auditor-General. This

focuses on the forecasting and reporting of agency performance. The point is made that while government departments and Crown entities have significantly improved the quality of their *financial* reporting since the mid-1980s, a similar improvement has not occurred in relation to their *non-financial* reporting. Brady acknowledges that non-financial performance reporting poses a variety of conceptual, technical and political difficulties, but makes a robust case that we can, and should, do better.

Miriam Lips, the inaugural Professor of E-government at Victoria University, examines how the New Zealand public sector is using Information and Communication Technologies (ICTs) to achieve its goals of transforming the operations of government by 2010 and its engagement with citizens by 2020. She argues that ICTs have great potential to reshape and improve how the New Zealand government conducts its business and interacts with citizens, but that this potential is not fully appreciated at present. She concludes that the public sector must develop an *informational perspective* in order to fully reap the benefits of ICTs.

One of the concerns generated by the reforms of the 1980s was that they had given rise to a raft of new organizations, thereby contributing to a more fragmented and possibly less cohesive and less well coordinated public sector. Derek Gill reflects on these issues in his contribution. He highlights the remarkable lack of hard evidence concerning the impact of organizational structure on performance. Such data as are available, however, suggest that restructuring is usually neutral or negative in its impacts. The message, perhaps, can be summed up as follows: restructure with caution and only after exploring the other available options first.

Finally, Richard Norman examines the impact of the public sector reforms on the role and influence of the three central (previously 'control') agencies – the Department of Prime Minister and Cabinet, the State Services Commission and the Treasury. He highlights how the move to a relatively decentralised system of public management has significantly affected how these agencies interact with line departments and altered the mechanisms available to influence behaviour across the public sector. He also makes the interesting observation that, by comparison with their counterparts in Australia, New Zealand's central agencies are relatively small, but that the State Services Commission has a more significant role (as the employer of departmental chief executives) than its equivalents across the Tasman.

Jonathan Boston
Richard Norman

Graham Scott

AFTER THE REFORMS:

Some Questions About the State of the State in New Zealand

This article comments on some of the current challenges facing the New Zealand public sector. I reflect mostly on the change relating to the core state services, to some Crown entities and some state-owned enterprises. I will also make brief comments regarding the relevance of possible constitutional change to the state sector.ⁱ

It interests me that the prevailing view of those past reforms as seen from the State Services Commission (SSC) is that:

The positive aspects of these reforms are known – including increased transparency, accountability, efficiency and better service in many areas. More recent reforms have placed greater emphasis on results and the way in which government agencies work together. (SSC, 2005)

The inside view from the top gives the impression therefore that there is a plan in place and good progress is being made towards the six state sector development goals laid down by the SSC. My outsider's task in this article is to question this.

My views about the reforms based on the State Sector Act and the Public Finance Act were spelled out in a speech to a similar conference as this in 1999 sponsored by the SSC (Scott, 1999), and in my book on the subject in 2001 (Scott, 2001). In these, I pointed to issues I thought needed attention, to lessons that should not be forgotten and to challenges I saw ahead. Some of these points are noted below as a basis for comments on where the systems that were subjected to those reforms are today:

- The need for clarity in the roles, rights, responsibilities, freedoms and accountabilities of the people in the key positions associated with public institutions;

Graham Scott is a distinguished former public servant in New Zealand. He served in the Prime Minister's Department in the late 1970s and joined the Treasury in 1981, serving as secretary to the Treasury between 1986 and 1993. He played a key role in developing advice to the fourth Labour government and subsequent National government on a wide range of issues, including public sector reform. Since 1993 he has been an adviser to many governments and organisations around the world. He was chair of the Health Funding Authority between 1996 and 2000.

- The need to turn managing for outcomes into a routine practice of public management and not individual cases driven by unusually talented management teams;
- Learning from the hard edges of accountability and seeking to refine and develop systems through experience and careful evaluation of results, both good and bad;
- The need for public managers, led by the SSC, to lift performance in the endless effort to ensure that the pool from which top appointments are drawn is deep and well prepared for high performance in demanding top jobs;
- The need to improve the capability of ministers to play their roles effectively through informed advice, improving the processes they work within and through selection and personal development;
- The need for robust, imaginative and thoughtful strategic management;
- The need for effective coordination on cross-cutting issues within government, including partnerships with the private and community (NGO) sectors;
- The need to strengthen policy focus and capability in public sector agencies; and
- The need for high ethical standards and professional skills to pervade the state sector.

After 20 years of experimenting the government should try again to get to grips with the real issues...and chart a course that is more promising than the one we are on.

I will use cases about the economy, regulation, state enterprises, hospitals and some cross-cutting issues to illustrate why I think these lessons that I thought we learned up to 2001 are still relevant when considering the performance of state administration today and some appear to have been forgotten.

The economy

Following the economic and state sector reforms in the mid-1980s and the early 1990s there was a measurable uplift in productivity trends and hence growth prospects, and a marked improvement in the resilience of the economy to shocks (see Whitehead, 2005). However, the long-term growth outlook has been dented by a drop-off in productivity growth in recent years that worries most observers. I suggest that the state has played a part in this.

The present government began with a view that previous methods of economic management had been too hands-off and that a more interventionist approach across the spectrum of policies was the answer. The results thus far are disappointing.

The trend growth in multi-factor productivity – the improvement in efficiency on both capital and labour

resources – has fallen from its average of 2.0% p.a. in the period 1988–2000 and 2.3% in 1992–2000, to an average of 0.9% from 2000 to 2006. After a long slide down the ranks of the OECD in terms of income per capita, the acceleration in productivity after the reforms in the 1980s and 1990s arrested this decline and we began to claw our way back. But on current performance it looks impossible to reach the average of the OECD income per capita in the foreseeable future, and emigration statistics indicate that people are voting with their feet at a time of record low unemployment.

Most economists would agree that for a small open economy the interactions between activities that are exposed to international market forces and those that are protected from them are crucial to overall economic performance. A business in the exposed sector has to compete with the prices and quality standards of the best international producers. It has to match the pace of innovation of its global competitors.

The protected sectors bring to the exposed sectors both advantages that can help beat the competition and disadvantages that handicap it. For example, a great education system that produces well-trained technical staff is an advantage; a tax burden that exceeds the benefits of state-provided services is a disadvantage.

The state is a very large component of the protected sectors and it has profound effects on the health of exposed sectors through its policies. While government is a necessary part of the solution to disturbing productivity statistics, it is also likely to be a very big contributor to the problem.

The economic ministries as a group will be falling short of the ambitious performance goals in their strategy documents if they do not provide a very clear view for the government about productivity and what should be done about it – including possibly unwelcome advice about the performance of the state.

The Australian Productivity Commission has a distinguished track record of research and perhaps could, within the spirit of CER, accept a commission to contribute to a study of New Zealand's productivity record.

Regulation

In the last eight years the philosophy and implementation of regulation has shifted from light-handed to heavy-handed regulation. The former emphasises analysis by expert tribunals, information, incentives, and a concern for the balance of risks between taking action when it is not justified and not taking it when it is. Intervention by ministers is at arm's length, formal and transparent. The latter is based more on direct intervention by ministers observing less formality and distance in their business with the heads of regulatory commissions.

Some of the evidence about the effect of this change is worrying. For example, Bronwyn Howell of Victoria Univer-

sity suggests that the shift in the regulatory regime coincided with a deterioration in performance in telecommunications in terms of technological progress, pricing and efficiency (see Howell, 2007). As Howell argues, we have gone 359 degrees through light-handed and back to heavy-handed regulation. She says it is not at all clear that the light-handed approach failed, and that there are substantial regulatory risks to heavy-handed industry specific regulation, especially in a small market undergoing rapid technological change. The current approach may be putting the appearance of competition ahead of national benefit in terms of efficiency in using these resources. If this is so, it has serious implications for national productivity.

In the electricity industry the evidence of things going wrong is more apparent. Whatever the circumstances of the resignation of the electricity commissioner, Roy Hemingway, if the content of an affidavit he has recently provided in the High Court is taken at face value there has been behaviour by ministers that is not consistent with an orderly process of market regulation.

I think Mr. Hemingway made a mistake in assuming he had much independence as a commissioner in the first place. In my submission to the select committee hearing on the bill that created the Electricity Commission, I showed that the commissioner was in effect only advisory to the minister (see Scott, 2004). But the faults in this legislation go much deeper than that. It breaches most of the principles that in my view are important for high performing public organisations, as my submission documents show in detail. It is careless regarding the conventions of Parliament about the delegation of its regulatory powers, and ignored auditor-general and Treasury guidelines on setting fees and charges. It overrides the duties of Transpower's directors in respect of investments, so it is scarcely surprising that the meltdown was over Transpower's investments, as the conflict was built into the legislation.

This is a good example of ministers blaming officials for their own mistakes – a practice that has grown rapidly in recent years. They created a central planning agency for the industry and it is failing for the reasons central planning of complex industries usually does.

After 20 years of experimenting the government should try again to get to grips with the real issues, which are about integrating investments in generation and transmission, and chart a course that is more promising than the one we are on. If we don't, then the next time there is an interruption to supply we will go off on another wild goose chase in a fog of shallow political responses. There is a lot more here than regulating for competition. A harmonisation of environmental policies and economic policies in this industry seems out of reach at present. The ban on building base-load thermal stations for ten years is already stressing the transmission system.

The Commerce Commission considered the benefits

of regulation of the gas pipeline industry in 2004. Having identified that the net public benefits of regulating some of the suppliers of pipeline services were negative, it nevertheless resolved to recommend regulating them on the basis of benefits to the users of the services from regulating the producers. In simple terms the commission decided that, although government control would produce an overall negative effect on the economy in terms of the efficiency of use of these assets and reduced investment in pipelines, it would recommend regulation of these firms because of benefits in terms of short-term transfers to their customers (see Commerce Commission, 2004). This is a clear example of a preference for redistribution over productivity and investment. But why should commercial firms using pipelines be given any weight when it comes to welfare policies – particularly when there is a cost in terms of national welfare? There is evidence that even for the users the benefits were only short term, and in the longer term became negative.

The transition to long-term holding of business assets by the state prohibits privatisation as a mechanism for investors to compete to put assets to more productive use.

Across a wider spread of regulation than these utilities there is broad support in political and business circles for the idea that regulations are not properly evaluated before they are implemented. Sectional interests are able to get regulations that suit their interests without concern for the wider public interest. The requirement for regulatory impact statements to accompany proposals to Cabinet for regulations is widely ignored, and they have been judged by an independent review as of poor quality (see Tasman Economics, 2001).

One response to this has been the drafting of a Regulatory Responsibility Bill, which has gained enough support across Parliament to get a hearing. I hope this will be a signal to officials involved in regulatory activities to lift their game.

It would be hard to find a serious economist who would not put a review of regulatory policies on the short list of things to be considered in an examination of the productivity performance of the economy. The Treasury should take a leading role in reviewing regulation both because it is not directly involved in the processes being criticised, and also as a consequence of its mandate to advise governments on economic matters.

State enterprises

State-owned enterprises comprise 39 companies with \$12 billion in assets, which means their efficiency has a major impact on the economy as a whole, particularly because much

of the investment is in utilities used across the economy.

The principles of the State-Owned Enterprises (SOE) Act of 1986 have proved remarkably durable and achieved what was hoped for them by the government of that time. But that was then. Now we have a different policy for how to govern and manage these enterprises in a condition of long-term government ownership. The designers of the original model thought that, over time, performance would go slack for reasons that would be hard to counteract. Among these were the lack of capital market disciplines and the weaknesses inherent in public sector processes for setting strategic directions for commercial businesses, monitoring and reacting to results. There was also concern that, once the first flush of enthusiasm was past, these enterprises would have trouble attracting highly qualified directors in sufficient numbers and patronage appointments would rise in number. The answer seen at the time was privatisation. However, it was recognised early on that network utilities were going to provide particular problems about how to implement competition policy and how to coordinate various industry-wide functions like the wholesale electricity market and the national transmission system.

Air New Zealand is not an SOE but a public company in majority public ownership. The shareholder can influence strategy and direction only through the means established in general company law.

It is hard to tell from the official information which SOEs have fulfilled this prediction of decline and which have not. With any measure of performance the question that is hard to answer is – compared with what? Economic-value-added analysis is not used as thoroughly and transparently as it should be so that the returns on capital cannot be benchmarked easily with the private sector. Further, it is especially difficult when the government has made decisions that particular SOEs are to do things they would not do if they were strictly commercial, and the costs of these are not measured and published.

Privatisation allows for there to be a contest for control of business assets, which is a crucial element of the processes of evolution in the economy. Allowing this process to work is the central reason for privatisation, as it enables boards and managers to compete for the right to manage business assets. Having ministers set business strategies monitored by officials is the alternative, but it is nearly impossible to contest effectively their views of how well they are doing unless they are obviously doing badly.

The transition to long-term holding of business assets

by the state prohibits privatisation as a mechanism for investors to compete to put assets to more productive use. This prohibition likely explains the conclusion of a large international literature that, on average over time, state ownership leads to worse business performance than private ownership. It follows that in general there should be an *a priori* reason, for state ownership of assets. Such reasons are usually associated with essential public utilities where private solutions are unsatisfactory for whatever reasons, or where non-economic objectives are involved. Other reasons for state ownership can arise in developing countries with immature markets.

Section 7 of the SOE Act allows for the government to enter an agreement with an SOE to give effect to a non-commercial objective. But it is rarely used, as ministers don't appreciate the transparency and it will likely require an appropriation in the budget. It is however, an important provision for transparency and should be used as intended. The fiscal curse of developing countries around the world is undisclosed contingent liabilities favouring political interests through covert influence on state enterprises. We need to be very careful not to allow this to develop here again as it did in the early 1980s with catastrophic fiscal consequences.

The authorities have recognised recently that long-term holding requires a shift in the SOE model. This is encouraging, but will it address the inherent weaknesses in public sector processes of governance? These include patronage appointments, advice and monitoring from officials who are not necessarily skilled in commercial analysis and decision making, ministers with very short-term horizons, and non-commercial incentives influencing long-term business strategies. SOEs report that the policies of long-term holding are largely about deeper intervention into their affairs. We shall see in time what the effects of this are on performance, but this will be difficult, as we will never know what the lost opportunities were.

Over the 25 years since the original conceptual work on SOE policy there has been an explosion of research, theory and practice on corporate governance, management and performance, known to the initiated as the economics of organisational architecture. This considers, firstly, the question of how to co-locate business decisions with the best information and capability, and, secondly, what are the appropriate internal controls to establish performance requirements, information and incentives so that strategies are implemented. The first is about how a firm manages the external markets for capital, managers, employees, suppliers, technology and so forth. The second is about regulating internal markets. I agree with Rob Cameron's view that the current SOE model looks very flawed from the perspective of this literature, in relation to the relationships between boards, ministers and their officials (see Cameron, 2005). In some

cases the boards are in effect largely advisory, while their members carry huge risks to their reputations as business professionals while being paid a fraction of what they earn with the same skills in the private sector. Is this compatible with long-term business success?

The government's advisers on SOE policy displayed a lot of confidence in their 2005 briefing to their ministers that they have plenty of talent available and provide training for prospective and newly appointed directors. However, I would have thought that the senior and experienced directors required to govern these companies would not need a lot of training. I am sure these inhibitors are keeping a lot of people away, whose skills are necessary to maintain high performance in these companies.

Many of these directors have several government appointments and no significant private sector appointments. Some of these appointments are plainly the result of political patronage. Is there a risk of getting a cadre of public sector directors who lack much other relevant experience and are acculturated into accepting a level of overt and covert ministerial intervention that is not consistent with the governance requirements for business success in the longer term?

A survey of directors of the largest state enterprises "suggests that SOEs are potentially at risk from an appointment process which virtually guarantees relatively high turnover among directors and limited engagement by chairs and directors in creating boards with the balance of skills needed for effective governance. Directors are concerned that appointments made for political or diversity reasons may be reducing their ability to assess long-term strategy ..." (Norman, 2006). The overall conclusion from this survey is that there is considerable room for improvement in the government's long term hold strategy.

A thoughtful and rigorous approach to what business assets the state should create, buy or sell from a public policy perspective should be a continuing process. For the present it seems that there are ideological prohibitions on such work. The head of the Accident Compensation Corporation was recently called to account for having discussions about private accident insurance, even though private provision was in place under the last government and might be again. Surely in the strategic planning of state organisations there should not be a prohibition on thinking about possible future policies that are not those of the present government. The portfolio of business assets seems stuck in a time warp.

With privatisation off the agenda for those enterprises where there is a substantive reason for public ownership, there is a case for a policy of partial sell-down of shares to get better shareholder monitoring through having a price quoted on the stock market and a greater attractiveness to a larger number of highly skilled commercial directors.

Air New Zealand is not an SOE but a public company in

majority public ownership. The shareholder can influence strategy and direction only through the means established in general company law. These are far less at risk of ill-considered interventions by state officials than SOEs. The Air New Zealand model looks to be superior for enterprises in which the state wants to be a long-term shareholder than the SOE model. It is more robust and transparent about its relationships with the state, which experience shows is good for governance and performance over time.

The major attraction of bulk funding seems to be that it makes it easier for ministers to argue with a hospital in financial trouble...

Hospitals

We can see in the public record performance problems in hospitals in terms of the volume, cost and quality of services, and the appropriateness of those services to the demands and needs for them. Full and consistent data on hospital services' volumes and costs are not available and so the evidence is patchy – but not encouraging. The main conclusions of a February 2005 Treasury report, released eventually under the Official Information Act, were that (allowing for limited data available and recognising various conceptual issues):

1. Real (CPI-adjusted) hospital expenditure in 2003/04 was 13.4% higher than in 2000/01, whilst *measured* hospital outputs were 4.7% higher. On the basis of these figures, hospital efficiency would appear to have *fallen* by 7.7% (2.6% p.a.) over the last three years.
2. Over the previous three years (1997/98–2000/01), the same approach suggests that hospital efficiency *increased* by 1.1%.

Much of the additional expenditure went into wages set in settlements that were beyond the control of the district health boards (DHBs), and were simply passed on in demands for more money from the budget. The report notes that the DHB sector as a whole and individual DHBs are not set clear expectations in relation to productivity or efficiency improvement.

But the rapid growth in expenditure combined with such volume and productivity data as are available, together with the continuing stress to at least some DHBs in meeting their budgets, points to the need for a much improved effort in assessing and benchmarking trends in hospital volumes and costs. It is disappointing that there seems to have been some resistance to doing this, as evidenced by the sporadic availability of data.

Turning to the quality of hospital services, the public record is – or at least was until the meltdown at Hawke's Bay – dominated by the enquiry into the death of a patient under the Capital Coast District Health Board (CCDHB)

and the request of the health and disability commissioner for assurances that around the country systems were in place to ensure that such an incident would not occur again. A review of the responses to the commissioner's request to all DHBs produced the following comment:

The DHBs seemed to fall into one of three categories – those that really understood what a safety culture was and demonstrated systems thinking (e.g., West Coast DHB and Canterbury DHB), those that superficially used the language of safe & quality care but their action plans did not give confidence, and those that have not really moved on from the individual blaming culture – they continue to believe that if doctors just concentrated harder, worked harder and were more careful, then medical errors would not occur. This is at variance with the literature over the last 10 years, which identifies that the practice of medicine is a complex adaptive system, that humans make errors (even experts trying hard), and that a safe system predicts errors and sets up defence systems to prevent errors impacting on the patient. (Seddon, 2007, pp.5-6)

All health reforms are about reallocating functions and responsibilities between politicians, governors of health authorities, bureaucrats, auditors and monitoring agents, managers and health professionals.

Thus, it appears that a considerable number of state-run hospitals not only are poor on quality, but do not know what quality management is about. The data do not seem good enough yet to resolve different perceptions about how these statistics compare with international benchmarks. But, regardless, these comments by the commissioner suggest that they should be much better.

The health and disability commissioner has stated that little has changed since 2006 (Hazelhurst, 2008), when two quality experts said New Zealand hospitals were 'not acceptably safe'. When asked what the impediments to quality were, the commissioner, Mr. Paterson, said a major obstacle was that New Zealand had 21 different boards each doing their own thing: 'We lack co-ordination and actually some direction in these things. I think we have an unduly complicated system for four million people.' DHBs needed to share ideas so that they could 'stop reinventing the wheel'.

Problems in coordination may also underlie the weakening in control of costs and volumes of services, which the Treasury paper clearly shows coincided with the abolition of the Health Funding Authority, which I should declare I chaired.

The policy of DHBs being bulk funded – strangely, at a time of vociferous opposition to bulk funding of schools, for which I think it was better suited – sought to increase local control and accountability, better integrate primary and secondary care at the local level and save administrative costs. There has been no comprehensive evaluation to see the results to my knowledge, but I would have questions about the appropriateness of these arrangements to best address these issues of volume, cost and quality. As the commissioner has noted, the sector is too fragmented to deal with the quality problem. I find it hard to see how to get better control over costs and volumes without return to some system of purchasing on a service basis rather than bulk funding. The technology for doing this is not simple and cannot hope to be duplicated in 21 DHBs, when four regional health authorities were finding it hard going in the mid-1990s.

The major attraction of bulk funding seems to be that it makes it easier for ministers to argue with a hospital in financial trouble that it is getting the same resources for its population catchment as other hospitals. While there is merit in this, and it provides a valuable benchmark, it glosses over differences in the costs of services between hospitals for various reasons, and assumes that each hospital can offset its more expensive services against its cheaper ones when the information to validate this is now mostly missing. The consequence of the way the system works is that the government intervenes in pay fixing, on the one hand, and sets budget caps on the other. Some hospital managers then find themselves unable to meet commitments that are part of government policy, especially in the area of elective surgery.

The lack of management information leaves it a mystery to outsiders what is the deeper source of the problem. But the symptom is real enough and can be seen, for example, in the Capital Coast district where, in October 2007, there were 70 people who had been on waiting lists for more than six months and who had the necessary points to qualify for treatment within that period.

The recent publication of data on 'sentinel' incidents in public hospitals is a step forward. But why has it taken so long to publish essential information on the quality of care? The chair of the Quality Improvement Committee said that it was because the reforms in the 1990s were all about efficiency and discouraged sharing of information and cooperation between professionals.ⁱⁱ This doesn't gel with the fact that in the 1990s the points system for bookings for elective surgery was developed in a collaborative forum more intense and successful than anything seen yet around hospital quality under the DHB system. More worrying is the implication that collaborative behaviour and transparency is, in the mind of a senior health official, inconsistent with striving for efficiency.

I suggest that the time is long past for casting in ideological

terms the tension between efficiency and performance, on the one hand, and trust and public spiritedness and cooperation on the other. We shouldn't accept that we cannot have both. A recent book by Julian LeGrand (2007) characterises philosophies of public management in terms of:

- trust;
- command and control;
- voice; and
- choice.

He weighs up the strengths and weaknesses of each and argues that expanding the opportunities for choice not only serves the interests of the less well off, but also makes the other methods work better. It is also what these people say they want. It is insightful to ponder the oft-repeated comments about the dangers of giving citizens choice as exemplified by the quote above from the chair of the Quality Improvement Committee from the perspective of LeGrand's book.

Why, because a citizen might exercise a choice to avoid going to a hospital with a poor quality record, would the clinicians there not cooperate with those in other hospitals to work on improving the quality of their services? Citizen choice inevitably means competition between alternative providers, which has become a bad word in state sector discourse. Solutions are typically seen in more 'coordination' by the elite running the monopoly.

But the mystery about the view from the Quality Improvement Committee is why providers in public sector organisations should resist cooperating to share quality improvement practices once they face the possibility that their patients might have an expanded choice of who to get the treatment from. There are plenty of reasons and evidence why people in competition might cooperate when they are all employed by the state, and even with private sector hospitals. Many doctors work in both sectors. I think the argument should be seen as evidence of another phenomenon no one talks about any more: capture of policy and resources by interests within the state providers. There is an imbalance of influence between producers and citizens.

From the outside it appears that the central authorities are having trouble dealing with these issues. The expectation seems to be that by sacking board members, changing chairs and spending more money, everything will come right. The minister of health's response to the announcements about quality and safety issues was to write a letter to the boards, which will already have a file of such letters going back many years. I doubt that such responses are adequate to the problems. I was surprised at the minister of health's announcement before Christmas that he has given the revised CCDHB four months to rectify things or he will appoint a commissioner. The new chief executive was not due to start until mid-April. These problems have been around for 20 years and cannot be fixed in four months. All the simple explanations for the problems were examined closely by the previous board and dismissed; only the hard ones remain. The evidence from

the commissioner's report referred to above shows that the problems are deep in the fabric of the organisation.

Also, it is surely a strange arrangement to have people who are elected by the citizens told that their job is to implement government policy and that they are not allowed to share their views in public with the people who put them there.

All health reforms are about reallocating functions and responsibilities between politicians, governors of health authorities, bureaucrats, auditors and monitoring agents, managers and health professionals. They are also about engineering structures of relationships between these and the communities and individuals they serve.

While republicanism in New Zealand may not be inevitable, it seems probable.

Where might the authorities look for proposals to adjust these in ways which promote solutions to these so far intractable problems? I agree with the commissioner that the balance of what is done centrally and locally is wrong, leading to apparent problems of leadership and coordination. I think it is insightful that companies that own chains of hospitals generally use franchising arrangements, in which approaches to quality and many aspects of administration and management information are centralised, while the hospitals themselves are run locally, often with strong professional leadership. With this template in mind I think it is worth investigating whether some functions that have been decentralised would be more effectively centralised. Trying to solve the quality issues through leadership, writing letters and sharing experiences is unlikely to be as effective as an astute mix of centralised and decentralised approaches within a common strategy.

A deeper evaluation of the options for addressing these problems in state hospitals would freely examine the possibility of hospital and other services for the sick and disabled being provided in a similar fashion to the services that are acquired for accident victims through the Accident Compensation Corporation. In other words, I am suggesting a return to a separation between purchasing and provision of services.

The current situation in the provision of hospital services illustrates nonconformity with several of the key performance principles of effective public management I began with. In the public record are authoritative opinions in support of my proposition that these problems are associated with weaknesses and instability in governance arrangements, lack of clarity in roles and responsibilities, poor information, weak accountability arrangements and distorted incentives.

Some cross-cutting issues

In this section I include some issues that are not about specific policy areas but are issues about capability that cut across the policy areas.

The professional public servant and free and frank advice

The tradition of a politically neutral public service and a codified relationship between it and ministers is embedded throughout official documents on the topic. One of the duties of this relationship is for public servants to give what is colloquially known in shorthand as free and frank advice.

The Cabinet Manual says that:

members of the public service: are (as appropriate) to give free and frank advice to Ministers and others in authority, and, when decisions have been taken, to give effect to those decisions in accordance with their responsibility to the Ministers or others.

The Public Service Code of Conduct says that the duty of a professional public servant includes:

- preparing advice, delivering services, and reaching decisions by using analytically sound, well-rounded, informed and inclusive approaches; and
- tendering that advice when required, with objectivity, courage, tenacity and independence. (SSC, 2007)

The requirement to act within one's lawful authority has special implications for those responsible for the management of publicly provided resources. **Put simply, the Government and its departments cannot do anything they want!**

These are important and are, I hope, enforced by chief executives' contract obligations, but how do you suppose advice would be given if these pronouncements were not in place? Perhaps there would not be much difference. The evidence – such as it is for an outsider – suggests that some take these obligations much more seriously than others and that people who don't take them seriously aren't penalised as a result. When it comes to assessing the impact of climate change on the economy, for example, the sins seem to be of omission rather than commission. Perhaps silence is safer than venturing an opinion on complex, sensitive topics. But all the topics I have touched on are complex and sensitive. Has the emphasis on 'no surprises' and the general exclusion of senior public servants from meetings of ministers, which overturned previous convention, made them a bit diffident? Some important policy advice can be very 'surprising'.

The need for free and frank advice has a deeper basis than the requirement for it in these documents. If public servants are to be regarded as professionals, then, like all professionals, they have a duty to their profession as well as to their clients.

Lawyers have a duty to the courts, doctors have duties to their colleges, and many professions are bound by ethics and disciplinary processes. A lawyer in the Justice Department is bound to fulfil the duties of a member of the legal profession as well as those of the State Sector Act. All public servants, whether they belong to a structured profession or not, surely have an ethical obligation to do the right things and to speak up within their organisations, or even, in extreme situations, blow the whistle publicly. These duties are not reliant on permissions or requirements in official documents.

Further, I believe that the duty of public servants to bring forward well-researched advice with frankness has even deeper roots. Much of my work these days is with governments whose business is not conducted in English, which clearly distinguishes the meanings of the words politics and policy. Many languages do not. One word is about power while the other is about truth. Western liberal democracy has embedded this distinction in its public institutions in a wide variety of constitutional and administrative arrangements. One of these is the professional public service, which, following British precedent, goes back to the Northcote-Trevelyan recommendations of 1854 to end the patronage system of public administration. In his 1861

Representative Government, John Stuart Mill wrote in connection with these reforms, which he supported, that he thought that the effective conduct of representative government required administration by educated and orderly minds. New Zealand inherited these arrangements and these beliefs.

While republicanism in New Zealand may not be inevitable, it seems probable. I argued at an Institute of Policy Studies (IPS) conference on the constitution, on its possible content, that it should provide for a public service that is based on principles of professionalism, managerial excellence, effectiveness, political independence, public service ethics and loyalty to the government of the day, and that has adequate resources to do all this (see IPS, 2000). This suggestion is based on a belief that these things should not be taken for granted, and that, based on our experience, they are essential for an effective and responsive state for New Zealand.

Whatever the formalities, for any senior public servant in any era the space he or she has to provide free and frank advice is earned rather than granted or conventionally accepted. I think the emphasis in SSC documents on building trust is crucial because, in my view, a politically neutral and highly competent public service contributes to holding the ship of state upright regardless of where the helmsperson is steering it. It is, perhaps, a controversial view that the public service has a constitutional position, but it follows from my concern that New Zealand lacks sufficient constitutional checks and balances on its government and Parliament. As an illustration, remember the antiterrorism legislation that intruded into the most sensitive rights of the individual in

relation to the state. This put the police in a no-win situation, and the solicitor-general said the legislation was not capable of supporting a prosecution. No one has taken responsibility for this – not the prime minister, not the select committee, not any official. It showed that a vital check on the powers of Parliament is missing.

On the subject of the political neutrality of the civil service, it is arguable that the ‘Washminster’ system is appropriate in some countries, whereby all departmental chiefs are subject to removal or reappointment when the government changes – although most keep their jobs. But I think it is more suited to countries that do have the necessary checks and balances and the depth of human capital to have competent ‘governments in waiting’. But as New Zealand seems to be short of talent across the board, I do not think the threat to capability and consistency that this would raise is worth the risk. Besides, the designers of the State Sector Act put in the necessary clauses that permit a government to insist on particular appointments if they do it transparently. If a government is convinced it needs a particular individual in place to get a job done, then it has the means to do so.

Official information

The more that sensitive advice is exposed in public, the more the officials who provided it will be called on to explain or even defend that advice in public. This can create tensions with ministers that are corrosive to the working relationships. It is better that sensitive advice is well presented and given than it is not presented in order to preserve the relationships. Some rebalancing of the objectives of the Official Information Act (OIA) might be in order to help promote the flow of frank advice. But while I would be sympathetic to a bit more protection to advice, which, if made public, could damage working relationships, I see the bad habits of some officials who seem to think their duty is protecting their ministers from hard questions in the House by resisting the release of factual information that should be readily available. It took MP Heather Roy many months to force out information on how many people had died on hospital waiting lists. Such information is not advice and I would favour a legislative basis for requiring officials to publish information bearing on the performance of public institutions – starting with health. It is good that the chair of CCDHB has promised that his organisation will no longer stonewall requests for information, but this needs legislative backing.

That all is not well with the OIA is clear from the analysis of experience with it undertaken by Nicola White (2007). Her central conclusion is that a law that was meant to promote trust is achieving the opposite. She wants the case-by-case approach to be augmented by rules and guidelines and consistent practices to better align the expectations of the parties to a request for information. That would be hard to argue with.

Professional public servants should also be reticent about spinning information and leave that to ministers and their press staff. My attention was caught by a Labour Department spokeswoman on Radio New Zealand in early February 2008 who said she was ‘excited’ and ‘very pleased’ over ‘fantastic pieces of news’ in the latest release of employment statistics, emphasising the positive.ⁱⁱⁱ This person speculated wildly about the behaviours of labour market participants and went on to offer such opinions as that ‘we need to make sure we are not creating jobs at the lower end’ – whatever that means in terms of the public policy advice the Department of Labour might be offering the government. Given the large and growing number of communications staff employed by ministries, too much of this kind of news release would be a worry for the independence of the public service.

Some overreach their real mandates to describe specified services with grandiloquent visions of their contribution to the nation.

Joined-up government

Getting agencies to work together is a difficult challenge anywhere, but New Zealand seems to stand out in the endless emphasis that has been put on this for 15 years. What has been learned about why it is so difficult? A recent paper in *Policy Quarterly* emphasises that this is being seen now as being about horizontal accountability and responsiveness to citizens and vertical accountabilities are being de-emphasised in the search for joined-up government (Gill et al., 2007). There are limits to how far vertical accountabilities can be sacrificed. As the controller and auditor-general said in 1989:

The requirement to act within one’s lawful authority has special implications for those responsible for the management of publicly provided resources. Put simply, the Government and its departments cannot do anything they want! (see Martin, 1991, pp.6, 13)

Are there insights emerging on how to judge how much coordination and stakeholder consultation is enough? Some coordination can be expensive and distorting. I have seen in one situation the leader of a crucially important public service bogged down in pointless meetings with other public servants who had nothing to contribute. This particular chief executive was criticised in his performance assessment for being too focused on being the best in the world at this service and not participating sufficiently in whole-of-government and collegial activities.

Are there reasons for concern that the mechanisms for coordination are stifling opinion and open debate? If ministers control who or which agencies will be on what committees, then they can control the advice they get. They can even ensure they get none if they prohibit advice coming

up unless it is agreed to in consensus. For example, if you were to ask the Treasury and most large spending ministries to agree on papers on improving cost effectiveness in spending, there would be very little advice on the subject – just as joint reports on SOE policy were unachievable in the mid-1980s. Sir Geoffrey Palmer was alert to this as prime minister and insisted that if officials had non-trivial differences, then those should be brought to ministers to resolve.

One possible example of this problem in action is the fact that it has taken years for officials to get seriously into work on carbon trading. This is now happening through a coordinating committee, at least one of the members of which cites it as a fine example of joined-up government. But in the background is the fact that the carbon trading became an inside game for the government and its SOEs when the government expropriated the carbon rights over Kyoto-qualifying forests. The private sector participants wrote off their investments in getting the trade going years ago because the government created such uncertainty over the property rights that there was doubt over what they had to sell. A considerable potential value to New Zealand was thereby lost years ago, and I am aware of no official advice to that effect at the time.

Those earlier reforms radically decentralised the way the state organised service delivery.

Efficiency and effectiveness, strategy and budgeting

The SSC documents report that transformation of the state services around the new strategic objectives is all going according to plan and real progress is being made. That's very exciting and a credit to those involved. These are important goals to achieve. So is the emphasis on client service, deepening networks and increasing capability in the Treasury.

But joining the dots around my questions might suggest that there is another, parallel reality, in which parts of the state administration are gobbling resources with insufficient concern for efficiency; that they are careless in managing services and clumsy in the way they define problems and craft solutions; that a lot of extant policy experiments are due for evaluation and reworking; and that too many people are complacent about things they should worry about. In that reality, the extant strategies for developing the state sector look like the guns of Singapore – pointed away from where the enemy is coming from.

I can't see much that gives any assurance that anyone is taking responsibility for thinking about these questions. The only tiny black cloud in the State Services Commission's statement of intent is a reference to how the economy has sustained an expansion of the state as a share of GDP that may not continue, and it is working with Treasury to get agencies to continue to deliver expected services with

shrinking real resources. A major change following the earlier reforms was that organisations took responsibility for managing within their budgets. After several years of rapid expenditure growth, is this discipline sufficiently strong to enable this collaboration to succeed? We must hope so.

In the quest for more focus on outcomes and whole-of-government responses, has concern for efficiency and economy been given too much of a back seat? Was the capability of the public sector really run down so far that we needed to add a number of civil servants roughly equal to the entire global employment of the World Bank?

Obviously, new prisons need staffing, and KiwiSaver need administering, but there are always new things coming along. Where are the gains from doing things more efficiently and cheaply? Was there nothing to cut back? How do you explain the huge increases in staff numbers in the Ministry of Health when the policy was to devolve responsibility to DHBs, which absorbed most of the functions of the Health Funding Authority?

What would a change to the budget system look like that links it more tightly into the whole public management system and supports a drive for delivering both good outcomes and cost effectiveness? Such a system would embed information

about effectiveness and efficiency into the budget process. I don't think this happens today. What would you think about the Treasury becoming more like an adviser to the government on what to invest in and what to disinvest from on the basis of cost effectiveness? This would require a richer dialogue with spending ministries and

Crown entities, leading to advice to the minister of finance about what strategies and business plans deserved financial support and how much. While I said in relation to SOEs that I have reservations about the Treasury doing this in relation to commercial businesses in competitive markets, I'm sure there are real gains to be made if it could do this proficiently in relation to nonmarket services.

The strategic documents, statements of intent and supporting materials of public institutions are today very impressive compared with what they were before the reforms. But many are vague and rather timeless. Some overreach their real mandates to describe specified services with grandiloquent visions of their contribution to the nation. I suspect that ministers don't get much involved in preparing many of them and see the real action somewhere else. This is a pity because I also suspect that a lot of deadweight administration cost from arguments over small things might be lifted if there were more agreement at a strategic level about what matters, what it costs and what plans are worth investing in. Obviously, ministers would need to engage in this – as in my experience the most capable among them once did, and perhaps still do.

Conclusion

In each of these cases the diagnostics might lead the government to try to make existing systems operate better, or to change those systems. Crudely expressed, the overarching objective would be to strike a more harmonious balance between policies to promote economic development and policies to protect the vulnerable and some measures of redistribution. This at least is what I think professional advisers should have on their minds. This will bring them at times into conflict with politicians whose motivations are to gain and maintain power to implement their programmes.

To paraphrase the political philosopher and former bureaucrat Ralf Dahrendorf (1988, p.16), no society can be regarded as civilised which does not offer both *provisions* and *entitlements*. People need access to markets, politics and culture in the sense that they need ‘chances in life’ to make choices from a universe of diverse possibilities. The issue confronting all countries is how to create sustainable economic improvement in global markets while not sacrificing the basic cohesion of their societies or the institutions that guarantee liberty. For Dahrendorf, the question of how to create wealth and social cohesion in free societies may be the same everywhere, but the answers are manifold (Dahrendorf, 1999). This observation is as relevant in New Zealand as anywhere.

The relevance of this to my topic is that I am proposing that the state will be performing better or worse according to how well it is doing in terms of dealing with Dahrendorf’s issue. A great state successfully identifies, minimises and balances these social conflicts where they arise. A poor state does neither provisions nor entitlements well, and allows the instruments of state coercion to be captured by sectional interests and bad ideas. In Dahrendorf’s view, this conflict is never over in a western democracy, so the search for better solutions is permanent.

New Zealand’s reforms, upon which this conference is reflecting, were about reforming the institutions of the state, by ministers and advisers who hoped to strike a better balance of this kind. The goals for fiscal policy and financial sector stability, which it is easy to downplay today, were actually achieved, while they struggled to redefine social policy – first through targeting, and then back to more universality. Government reform in New Zealand did achieve efficiency improvements in formerly government-run businesses. Public sector reforms did actually achieve much of what the politicians who put them in place expected them to do in terms of contributing to fiscal policy correction, shifting the priorities of government expenditure and greater efficiency. These were very difficult economic times and two unlucky governments acted boldly to address them. But then new agendas took over.

Each of you will have your own views on the results of those reforms, but I suggest to you that the challenge faced by this generation of ministers, advisers and managers remains, as Dahrendorf argues, the same.

Each of you will have your own agendas for the future, but I hope I have persuaded you to think not only about how to

improve your corner of the state, but about how you will do this in a way that addresses the balance of entitlements and provisions. The economist Arthur Okun coined the phrase ‘the big tradeoff’ in his 1975 book of the same name, *Equity and efficiency: the big trade-off*, to capture the fact that policies to promote economic growth often conflict with policies to promote equitable distribution of the fruits of the economy. He was not arguing that one should take precedence over the other, but that pursuing one often had costs in terms of the other. The ceaseless task of the modern state is to find policies and build institutions that ease this trade-off to the greatest extent possible so that a nation gets the best it can of both. I doubt that we are doing that.

To conclude, I will try to put down the questions and comments that Okun’s and Dahrendorf’s insights might imply about the cases I have noted here. I will add some questions that flow from the conclusions I summarised from my earlier study of New Zealand about the foundations of successful public management, and which I listed at the start of this article.

1. Why, when the state has taken onto itself a ‘hands on’ role in growing the economy and distributing the benefits fairly, doesn’t it have a clear and unequivocal focus on the most important indicator of long-term prosperity: the productivity of resource usage? The government cannot distribute what economic agents have not earned.
2. If productivity has to grow faster than Australia’s for us to close the income gap over time, then why does the Commerce Commission regulate the gas pipeline industry in a way that sacrifices efficiency in the use of these resources in order to redistribute wealth from the owners to the users of the pipelines? Have the latter become welfare beneficiaries? Liberal economists since Adam Smith have objected to business welfare, as it damages national prosperity.
3. Why, in the face of centuries of evidence to the contrary, do we believe that a government can make important property rights dependent on one’s powers of persuasion with a minister or a tribunal and not cause a decline in the willingness to invest?
4. Why do we have such prejudice against providing choice to citizens about who they get state-funded essential services from, and insist that they buy them from state providers? The evidence is that low-income people value choice; why deny them? Could this be the late and unlamented concept of provider capture of government policy making a comeback?
5. What are we learning from the hard edges of accountability about clarity in roles and other matters, as, for example, from the current experience with the Hawke’s Bay DHB?
6. Dreary as the prospect will seem to many people, is there a need for a further reform of the health system to rebalance what is controlled at the centre and what is delegated and how, and to allow greater choice?
7. Is there a need to change the OIA to strengthen its protection of high-level sensitive advice and remove its

- protection entirely from routine performance information on state organisations?
8. New Zealand seems critically short of high levels of talent for directors, managers, ministers and policy advisers: is there anything more we can do to raise the national capability in these respects?
 9. Do we have the roles, relationship, skills, processes and levels of trust right between the three central agencies to forge an effective leadership group to drive the state to higher levels of performance?
 10. What lessons and guidelines have been learned from 15 years of attention to whole-of-government responsiveness, and has there been a cost in terms of stifling the initiative of individual agencies?
 11. What have we learned from the creation of mega-departments as regards incentives, information, cost and performance?
 12. Why is world-class policy analysis and evaluation sporadic?
- You will have other questions, and not all share the same answers to these ones. To return to the question in our conference theme of what comes after the reforms: the answer is more reforms. Successful states do this incrementally and

continually without fuss, while weaker states do it periodically under pressure and with a lot of fuss because they have let things drift.

Those earlier reforms radically decentralised the way the state organised service delivery. In recent reforms, ministers have reached deeper into the affairs of these decentralised bodies, so we may now have a hybrid, with a mismatch of accountability and responsibility. But, when fixing the flaws in the system, remember that successful public sector management reform movements are designed to fulfill a larger policy or political purpose. Reforms for their own sake always founder for lack of sponsorship.

So the questions for this generation of state servants are: what are the critical challenges facing the country that you are taking some responsibility for? What are the reforms you will recommend to meet them? And what principles and lessons from experience will you draw on in forging this advice?

i I am grateful for information and from discussions on various aspects of this paper with Rob Cameron, Don Hunn, Alastair Bisley, Bryce Wilkinson, Roger Kerr, Lew Evans, Bronwyn Howell, Lynne McKenzie, Alf Kirk, April Harding, David McGee, Claudia Scott, John Palmer, Keith Turner and John Martin. Responsibility for the content is entirely mine.
 ii 'Nine to Noon', Radio New Zealand, 20 February 2008.
 iii 'Checkpoint', Radio New Zealand, 7 February 2008.

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Kevin Brady

Forecasting and Reporting Performance: the Search for the Holy Grail?

Introduction

More than 500 public entities in New Zealand are required to publicly report prospective and actual performance information.¹ Most of the requirements have been in place for more than 15 years, their origins lying in the public sector reforms of the 1980s.

There is strong theoretical logic supporting the usefulness of publicly disclosed performance information, with disclosure of non-financial performance information a growing phenomenon internationally. Indeed, last year I attended an international gathering of auditors-general at which it was clear that the demand for such information is growing.

Yet all of us would have at some time questioned the relevance and usefulness of non-financial performance information. I think we perceive ourselves at a crossroads: needing to decide whether the aim is achievable, and the cost and effort justified by the benefits.

Kevin Brady has been New Zealand's Controller and Auditor-General since May 2002. He joined the Office of the Auditor-General in 1971, and worked in the Napier, Palmerston North, Timaru and Wellington Audit Offices before being appointed to the role of Assistant Auditor-General, Local Government in 1990. He is a fellow of the Institute of Chartered Accountants of New Zealand (ICANZ) and has a Master of Public Policy degree from Victoria University of Wellington.

During the last 18 months my office, in response to statutory changes between 2002 and 2004, has extensively reviewed the prospective information prepared across the public sector. Our conclusion? Despite more than 15 years of experience, there remain significant issues and limitations with the prospective information currently produced, which have an impact on the usefulness of subsequent reporting. I remain concerned that such information is not prepared and reported on as robustly as it ought to be to serve external user needs; nor is it used as well as it might be by internal users – managers and governors of public entities – to improve public service effectiveness.

In this article I want to take the opportunity to take stock and question what we think non-financial performance reporting is for. In doing so, I want to outline what I see from looking across the non-financial performance reports produced by the public sector and the issues I think bedevil the use and usefulness of this information. I want to go back to the fundamental elements and qualitative criteria that underlie the preparation of non-financial performance information. Finally, I want to ask whether some of our expectations are misplaced or unachievable and if so, whether we are seeking a Holy Grail and what a future direction might involve.

So why do it and who needs it?

From more than 15 years experience, I think we can all agree that compiling a meaningful non-financial performance statement presents many more challenges than does preparing a conventional financial statement. Financial statements are heavily prescribed in terms of their structure, composition, measurement and disclosure by financial reporting standards.

There are no such standards for non-financial performance statements, which need to be customised to reflect the nature of the reporting entity. Therefore, judgements need to be made about which outcomes and outputs are most relevant and significant for the purpose of external reporting. It is these judgements that seem to create many of the issues and problems – for both preparers and users.

However, preparing information about entities' performance and the wider impact of this seems inescapable. I've always found it hard to understand why the internal existence and use of such information could be anything beyond commonsense management practice.

Likewise, there are commonsense reasons for the public availability of performance information. Stakeholders are interested in service performance because public sector entities exist to provide goods and services for the public's benefit. However, the vital point about the public sector that underscores the importance of well-prepared performance information is its use of 'coercive powers' to impose taxes or regulate the behaviour of others – powers provided to protect and serve the 'public good'. So a core purpose of public sector performance reporting is to demonstrate efficient and effective service in the 'public good'.

The question of 'who needs it?' has not, in my view, been very well debated. This would involve getting greater agreement about the needs of different audiences and their access to information.

It is obvious for state sector entities that ministers and their monitoring agents are users. However, as part of the governance system for state sector entities, performance information for ministers could equally be provided through 'special purpose reporting'.

Parliament needs information to enable it to hold ministers and state sector entities to account. Parliament is a user required to make decisions about the funds to be voted through the annual Budget process, and to review the performance of the entities that have used these funds. However, the needs of individual MPs vary widely, depending on their individual views, portfolio responsibilities, political alignments and the topical issues of the day.

Of course, we are fortunate to live in a democratic society, in which openness and transparency are the foundations underpinning the use of taxing and regulatory powers. So there are also information users among the media, academics, political and financial analysts and commentators, and interested and concerned members of the public. I too am a user in that I give assurance to Parliament and the public about the performance of public entities.

It is hard to imagine a functioning democracy in which all of these users – and more – don't have a stake, if not in

any single agency's performance accountability, then in the collective quality and availability of this information. The uses and purposes vary but include bringing issues to the attention of the wider community, performing research about the nature and state of our society, identifying the impact of public services, and recommending investment and other decisions.

So could any single set of information meet all these individuals' needs and still address the interests of Parliament and the public? Currently, public accountability legislation tends to provide for one set of information, or a 'one size fits all' approach. While a common set of information might not be of equal relevance to all users, it can provide a starting point from which to explore and question for their

more specific purposes – just as for financial statements the bottom line is the starting point for analysis.

Equally, an issue that we might explore is the different needs and interests of users: how these influence their uses of non-financial performance information, and therefore how information might be provided to better meet different needs. For example, communities making choices about the costs and services provided by their council might require

different information from that sought by the media about the results of policy changes in government departments. An alternative approach might be to require strategic planning to be linked to organisational performance management and communicated in ways that take account of stakeholders' needs and preferences for receiving information. This might provide another way of addressing our desire for service improvement, as well as signalling that information should be based on an understanding of internal and external users' needs.

In recognising that there is a range of users and uses of non-financial performance information, one approach should be rejected – the idea that the purpose of accountability is blame-ability. Out of idle curiosity, I consulted the online Oxford Dictionary, which was surprisingly silent on accountability, but I did find 'accountable', which was defined as 'required or expected to justify actions or decisions', and as 'understandable'. Likewise, under 'account' I found 'a description of an event or experience'.

We are all aware that relationships between outcomes and outputs are complex; that relationships and expectations change over time; and that performance can be influenced by a range of circumstances and events. Non-financial information is perhaps best seen as that which helps make actions and decisions understandable, and explains subsequent events. It is true that sometimes information and its consideration lead to blame, but this is a secondary effect rather than the purpose of information.

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subsequent events.

People talk a lot about the need for joined-up government for collaboration, and it seems to me that the key to joining up is to be able to talk openly and honestly in Parliament, the public sector and communities about what we think is happening and how this can be improved. Good quality information, both non-financial and financial, is the oil that allows this conversation.

Perhaps, to quote Rodgers and Hammerstein, I am being ‘a cock-eyed optimist’. Perhaps for many of us who have a part to play in achieving public sector performance, our fear of blame is greater than our desire for gain? I am distressed to hear people questioning the usefulness of preparing non-financial performance information. Perhaps we need to look at ourselves and our behaviour and consider how we create the incentives for true openness and collaboration rather than simply walking away from the challenge of performance information.

Qualities of service performance information

As with general purpose financial information, service performance information is premised on being accurate and relevant for decision making by users. The qualitative characteristics within the Framework for the Preparation and Presentation of Financial Statementsⁱⁱ (relevance, understandability, reliability and comparability) apply to financial reports and equally to service performance reports. Elements to which they apply include the selection of outcomes, outputs, performance measures and targets.

Therefore, overall I expect entities to have a performance reporting framework that reflects the statutory requirements, which in my view would comprise the following:

1. The medium-term component, which should include information on the reporting entity’s objectives, outcomes, impacts and operating intentions, together with related performance measures and standards and other information required by legislation and generally accepted accounting practice (GAAP):
 - clearly identified outcomes and supporting discussion on the entity’s role, functions, strategic priorities, challenges and risks, to provide the context for the entity’s role and functions;
 - main measures and standards for outcomes, objectives or impacts that are clearly specified over a period of three years and provide baseline data that places measures and standards in a more meaningful context and allows progress to be tracked.
2. The annual forecast statement of service performance (SSP) component, which should include information on the reporting entity’s intended outputs, together with

related performance measures and standards and other information required by legislation and GAAP:

- logically aggregated output classes/outputs with clearly specified outputs that are external impact focused;
 - clearly specified performance measures and standards that are relevant and balanced and provide baseline data for measures and standards.
3. A coherent structure and integrated contextual information that makes evident thorough linking within and between the information in the two components:
 - the reasons for the entity’s outputs;
 - the focus of its reporting, including the rationale for, and the relationships among, the elements, performance measures and standards.
 4. And also, of course, the annual historical SSP in the annual report, which reports and explains actual performance against the standards in the forecast SSP.

The state of non-financial performance information

During the last couple of years my office has:

- reviewed most government department and Crown entity statements of intent in depth;
- audited the 2006–16 long term council community plans of local authorities; and
- conducted a performance audit of the statements of corporate intent (SCI) prepared by entities such as council-controlled organisations, state-owned enterprises and Crown research institutes.

Overall, I’ve been disappointed that many entities’ service performance information did not seem to set out coherent performance frameworks showing logical linkages from the medium-term outcomes information and organisational strategies to the annual output information. Neither did it provide well-specified, relevant performance measures and standards for both the medium-term and SSP information.

Of particular concern were the following:

Weak links between longer-term strategy and annual plans

There were weak linkages between the medium-term contextual and strategic information and the annual forecast SSP. These linkages should clearly set out the rationale for the outputs and identify key dimensions of service performance for each output. Assessments of the relevance of performance measures and standards, and subsequent achievements against standards, can be made only in the context of the entity’s operating environment and strategic direction. Therefore, a logical linkage between strategy and service delivery is vital not simply for external accountability, but more importantly for management evaluation and future service planning.

... a logical linkage between strategy and service delivery is vital not simply for external accountability, but more importantly for management evaluation and future service planning.

Identifying service standards

Measures and standards need to be identified and specified for both output information and medium-term achievement. Just as for financial reporting standards, if the underlying elements of the SSP are not properly identified and treated, the usefulness and relevance of information for external accountability, management and business improvement will be undermined. Also important is the need for robust best estimate-based standards combined with historical or benchmark information that gives context to the anticipated achievement.

Through our work we have identified a range of areas for improvement in service performance reports to better meet the expectations laid out in legislation and GAAP. These include a need to better:

- apply the definitions of the elements for service reporting (in particular of outputs);
- consider how to meaningfully aggregate elements to strike a reasonable balance in the extent of detail to communicate a reasonably complete yet succinct and coherent account;
- link the medium-term contextual and strategic information to the annual forecast SSP to clearly set out the rationale for the delivery of service, and also identify key dimensions to service performance for each output;
- identify measures for both medium-term achievement (in terms of the influence or impact sought on the wider state or community) and for output delivery; and
- identify robust best estimate-based standards combined with historical or benchmark information that gives context to the set standards.

In my view, the quality of non-financial performance reporting is a significant weakness in the public sector's accountability to its stakeholders.

I recognise that in 2007 the Treasury undertook a review of accountability documents, and I'm supportive of any initiatives intended to improve the state of information and its usefulness. I confess to some anxiety, however, that undue focus on structural change could displace effort that might have been directed to improving the quality of information – and 15 years of not doing this well is quite enough.

There are wider improvement options that could be considered that are beyond my scope to discuss, but in my – very 'auditor' – view of the world we need to focus on substance over form. By this I mean attention by both entities and central agencies to the quality of information that appears in both forecast and annual reports, rather than simply to its presentation.

Enduring improvement in performance information will require clear and consistent policy objectives, strong central coordination and direction, well-established good management practices, and an unwavering accountability

focus on understanding results. Despite legislation and other high-level accounting and practice guidance, we have struggled to provide this over the last 15 years in the central government sector. One of the things we all recognise is that for performance information to be useful, it needs to be nuanced for, and owned by, the entity preparing it; thus, high-level guidance will take us only part of the way, and improvement is likely to require deeper and more sustained attention.

Non-financial performance reports are essential documents in ensuring government departments and Crown entities are held accountable to Parliament.

Intended work on non-financial performance information by the Audit Office

Over the upcoming year I intend maintaining my focus on performance information, and hope that in tandem with the efforts of central agencies this will help drive the improvement needed in public sector performance information. Indeed, as a result of the legislative changes, and with our

emphasis on prospective service performance information over the last year, we have been reviewing and updating our own audit methodology and standards for service performance information to identify where we too can do better.

I started by noting that many users would say that the information currently produced doesn't meet their information needs, or that it is not understandable for a lay reader. I also noted that entities themselves do not use the information for management and business improvement purposes. Should we be surprised and admit defeat over the challenge of public sector accountability?

Because there are so many users of, and uses for, performance information, there is unlikely to be a silver bullet solution to their complex and varied information needs, and I'm not sure why we would delude ourselves with such a simple suggestion. This is why our public sector accountability arrangements don't rely simply on performance information, but include a range of rights and means to obtain information for the range of users.

My own view is that the very diversity of expectations and uses of performance information is part of what bedevils it – and so long as we continue to expect it to answer every question, non-financial performance information will remain a quest for the Holy Grail. I recall still that when the legislative requirements for SSPs were first introduced, some individuals in central agencies thought there would be no need for other work such as the performance audits my office undertakes because all the information would be in the SSP. We are a long way now from thinking that that kind of information can appear in one statement – but no further advanced in having a better answer to problems of service performance improvement and accountability. Despite the

obvious inherent tensions and flaws, neither the 'status quo' nor the 'abandon' options appear tenable. So we need to knuckle down with this, in my view, not fully implemented part of the reforms, and genuinely give non-financial information the consideration it deserves, in the spirit it deserves – be we preparers, reviewers or users.

Many people don't understand a set of financial statements, but that doesn't discredit the value of the information or its purpose. Likewise, while we should endeavour to ensure service performance information is well expressed in commonly used language, we should also expect the reader to come to the information moderately informed and willing to make the effort to understand it.

The question of the use that entities make of their service performance information is a little more perturbing. By way of parallel, what confidence would we have in an organisation that said it did not use its financial information for management and business improvement purposes?

The preparation of service performance information should be the reflection of good management practice involving clear articulation of strategy, linking of strategy to operational and other business plans, monitoring of the delivery of operational and business planning, and evaluation of strategy impacts and results.

Non-financial performance reports are essential documents in ensuring government departments and Crown entities are held accountable to Parliament. Parliament and the public rely on these documents. If those documents report poor performance, democracy requires departments to be held accountable for ensuring they remedy performance issues. If Parliament is unable to adequately assess entity performance because of the poor quality of performance reporting, then we would expect those entities and their oversight agencies responsible for the quality of reporting to be held accountable for their inadequate reporting.

I note again that here I speak not of blame but of making actions and decisions understandable, and explaining subsequent events. I speak not just of demonstrating accountability, but of achieving continuous improvement in public sector effectiveness.

While there are some good examples, these are in my view too few and far between. The only thing I can generally say about the state of performance information currently is that there is a level of public information about government departments and Crown entities and their services.

Addressing the weaknesses in performance information requires greater clarity, persistence and consistency at a government and public sector-wide level. As long as the weaknesses I've described persist, parliamentarians and the public can have limited assurance that the performance information of public entities reflects the purpose and impact and effectiveness of their endeavours.

i This is an edited version of a paper presented at the 'After the Reforms' symposium in Wellington, 28-29 February 2008, hosted by the School of Government at Victoria University.

ii The standard adopted by the International Accounting Standards Board.

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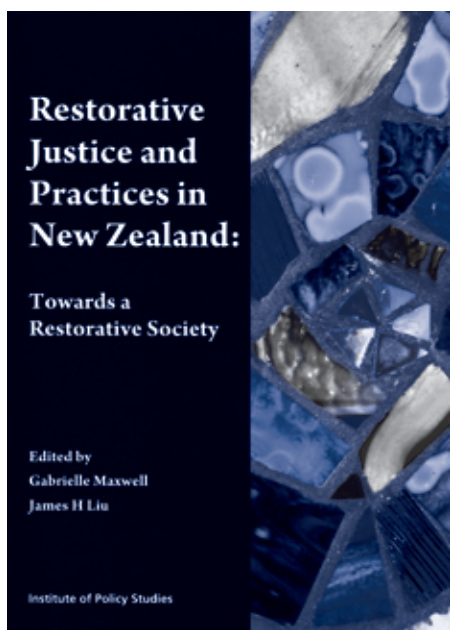
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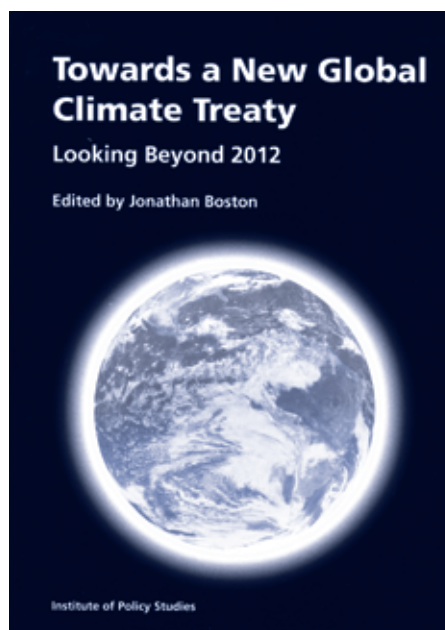
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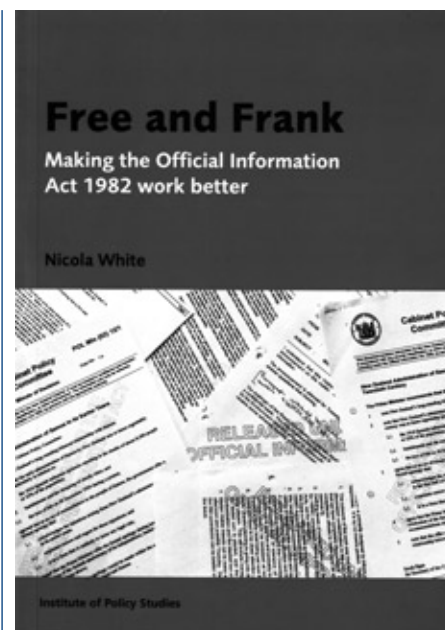
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By Nicola White

Published – 2007

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Miriam Lips

BEFORE, AFTER or DURING the Reforms?

Towards Information-Age Government in New Zealand

Miriam Lips is the first Professor of E-Government at Victoria University of Wellington, with positions in the School of Information Management and the School of Government and a Research Associate at the Oxford Internet Institute, University of Oxford. Her chair at Victoria University is sponsored by Datacom systems Limited, the State Services Commission, Cisco New Zealand Limited and FX Networks Limited. Miriam completed her PhD in Public Administration at Erasmus University, Rotterdam. Since 1996 she has worked as an Assistant Professor and an Associate Professor respectively at the Center for Law, Public Administration and Informatisation at Tilburg University. In 2003 she also joined the Oxford Internet Institute, first as a Visiting Fellow and later as a Research Fellow.

A new reform movement?

Twenty years after the state sector reforms in New Zealand, high expectations of a new reform era for the New Zealand government can be observed. Reaping the benefits of the information and communication technology (ICT) revolution, government aims to achieve fundamental changes in the ways it works, collaborates and engages. Two important milestones for enabling the 'transformation' of the New Zealand government are the transformation of the operation of government by 2010, as government agencies and their partners use technology to provide user-centred services and achieve joint outcomes, and the transformation of people's engagement with government by 2020, as increasing and innovative use is made of the opportunities offered by ICTs (State Services Commission, 2006).

The New Zealand government acknowledges that E-Government, as this 'transformation of government' is being called, is the more necessary now that a new generation of 'digital natives' is growing in New Zealand – people who have grown up in an online world. These people most likely have different expectations of the way in which they interact with government than do older generations, and the New Zealand government explicitly wants to meet these expectations. E-Government is perceived to be vital to the social and economic well-being of New Zealand. E-Government, therefore, is acknowledged to be critical to the New Zealand public management system (ibid).

A new public management reform seems to be most desirable in New Zealand, and, perhaps, to a certain extent inescapable. The big question, however, is whether the New Zealand government will be able to achieve its ambitious reform objectives, and, if so, what the substance of this new, new public management may be. In this article I propose that the transformational potential for government is certainly there, but not all that evident to us at the moment. I will argue that we need an alternative perspective, *an informational perspective*, if we are to understand more fully, and react upon, the transformational potential of ICTs in government and in its relationships with society (Lips, 2007a).

E-Government or t-government?

The New Zealand government is not the only government looking for enabling transformation by making use of new ICTs. E-Government has become an important policy agenda for governments around the world, with key transformational objectives attached to it, such as public service transformation, transformed public engagement and establishing citizen-centric government. Moreover, governments around the world are already using ICTs for modernising government – for improving public service provision, enhancing internal efficiency, and building trust between government and citizens, for instance. The tools of E-Government are many and varied: examples in the front office are the internet, smart cards, CCTV cameras, biometrics and mobile phones; in the back office of government we can think of databases and intranet facilities.

In New Zealand, having a child with autism is a good example of a situation in which parents are struggling with joining up a wide range of siloed government agencies.

Internationally, however, outcomes of these E-Government strategies seem thus far to point towards restricted achievements – establishing similar but improved government, perhaps, rather than reformed or transformed government. Governments are struggling to bring about the fundamental changes required to achieve transformation. One explanation for this is that, in many countries, the focus of E-Government has mainly been on the tools themselves: on the ‘e’ of E-Government. With the internet as a dominant focus in most E-Government endeavours, the following four-stage model for E-Government development has become widely accepted:

1. the *information* stage, in which governments start to adopt the public internet and create websites where they put their information online;
2. the *communication* stage, in which governments add interactive features to their online presence, such as email;
3. the *transaction* stage, where governments set up online transaction facilities in their service relationships with citizens and businesses; and finally
4. the *transformation* stage, in which governments achieve ‘whole-of-government’ service transformation.

Nowadays it is widely believed that this linear pathway needs to be followed to achieve ‘full E-Government maturity’, as it is called in the influential benchmark reports of Accenture (2006). Recent E-Government benchmark studies show that most governments can be situated at the first levels of E-Government development, with a substantial

number of countries now moving to the transaction stage. Usually, the general conviction is that if the ICT tools are in place, well designed and with appropriate features such as high security, reliability and accessibility, anticipated benefits will be met. Causes and effects seem to be pre-defined by the right ICT applications; the end user will be satisfied and E-Government take-up therefore will follow automatically.

Interestingly, however, E-Government projects are often perceived as failures rather than successes (Heeks, 2006). Indeed, survey results show that internationally, the take-up of E-Government services remains modest, and in some countries even declines when compared to uptake through other service provision channels (European Union, 2005). An important lesson in this respect is that E-Government is not just about applying the technology: it involves redesigning the way government works (e.g. OECD, 2005; *Economist*,

2008). For large bureaucratic organisations like government agencies, this ‘next stage’ in E-Government activity may be very difficult to achieve. According to the OECD (2005), the redesign of government will be more complex and challenging, possibly more costly, and potentially more risky, especially because required changes may be quite disruptive of established government structures, culture and management arrangements. Moreover, benefits of these

redesign initiatives are likely to be less readily apparent to policy makers and outside observers. A further hard question for governments at present is how effectively to reach those citizens who will not or cannot go online (*Economist*, 2008).

In summary, the transformation of government requires dealing with fundamental questions regarding existing government structures, functions, cultures and relationships. E-Government, on the other hand, has been a top-down, supply-driven concept so far, with the available technology as the main driver for governments to modernise public service provision. It is only more recently that leading countries in E-Government are starting to acknowledge that transformation may not be driven purely by technology; that, actually, the technology, or the ‘e’ in E-Government, is often the least important factor in successful E-Government initiatives. And, most challengingly, that truly transformed, citizen-centric government, for instance, may well require the input of citizens at the design as well as the consumption stage of E-Government. Experiences with technological revolutions in the past teach us that innovation is neither a linear nor a rational development: innovation is, in fact, a *process* as much as it is an *outcome* or a *product*. We first need to learn how to use the new technologies, before we are capable of learning how to do things fundamentally differently (Castells, 1996).

An underestimation of government in E-Government

This capability to learn requires the availability of empirical knowledge about how E-Government applications are changing the structure and functioning of government.

Surprisingly, however, there is not much knowledge available at all. Although public management reform has been a focus of scholarly attention (e.g. Osborne and Gaebler, 1992; Kickert, 1997; Pollitt and Bouckaert, 2000; Peters and Pierre, 2003), the transformational potential of the ICT revolution for government has largely escaped scholarly interest so far, with a few good exceptions (e.g. Bellamy and Taylor, 1998; Snellen and van de Donk, 1998; Fountain, 2001; Lips, 2007b). Interestingly, a similar lack of interest can be observed among practitioners: although governments are developing policy strategies to achieve ICT-enabled 'transformational government', the fundamental concepts, structures, frameworks, processes and relationships in public administration are not presented as a strong part of the reform debate (Lips, 2007b).

What we know about E-Government, here in New Zealand and elsewhere, is based primarily on quantitative research data reporting on the availability and design of E-Government applications, such as presented in international benchmark exercises. We do not know much about the *use* of E-Government applications; nor do we know much about the *users* of E-Government (Lips, 2007c). Empirical, qualitative research on the why and how of introducing and using ICTs in government is hardly available.

Again, a dominant focus on the 'e' in E-Government has led to an underestimation of the 'g' in the same concept. This situation seems to be more and more acknowledged, not only in academia, where E-Government researchers are starting to acknowledge their lack of institutional understanding in trying to explain E-Government (Grönlund, 2005; Andersen and Henriksen, 2005), but certainly also in the E-Government practitioners' world. A good example of the latter is the location in government departments of organisational units whose names usually start with an 'e' or 'IT', where E-Government topics and strategies are handled.

Governments, however, are starting to discover that E-Government initiatives may involve much more than managing an ICT project. Several of these E-Government initiatives are touching upon and confronting fundamental aspects of government in a way that a repositioning is needed if government wants to become aligned with the emerging information society. For example, the use of blogs by public officials and politicians raises questions about the extent to which official public policy statements need to be adhered to and freedom of expression can be permitted. The desire to share information across government silos to arrive at more effective, citizen-centric policy solutions is often prohibited by privacy legislation. And, more recently, hundreds if not thousands of people, with more than 70% of them based in New Zealand, engaged with government in drafting the new Police Act with the aid of a wiki, leading to real out-of-the-box thinking: the New Zealand police officer in charge of developing the new act commented, 'People are calling it "extreme democracy" and perhaps it is ... the person on the street has got the best idea about how he or she wants to be policed as they are a customer.'¹

In many examples of this kind, where the use of ICTs

confronts government, we see that government is not analogous to private companies. Government has a unique contract with its society. We have made it very difficult for government, as the public guardian of our collective interests, to step, or even think, outside its institutional box. Laws, regulations, public participation procedures, accountability structures, silo government: these are all examples of the checks and balances we have created to ensure democratic government. Governments thus have much more stable relationships with society and within their own institutions compared to a private company, for instance. With this strong tendency towards continuity, governments are primarily inclined to use ICTs for achieving the same tasks and activities better: for business optimisation and rationalisation, rather than for doing things differently. This implies that fundamental changes in government as a result of E-Government initiatives are usually *institutionally* enabled (or even disabled!) rather than *technologically* driven (Lips, 2007a).

E-Government and the new public management system in New Zealand

The new public management (NPM) system further reinforces the tendency of achieving things better in government, rather than differently. With main NPM-drivers being to achieve increased efficiency and accountability, the seductive rationality of new ICTs appears to be irresistible. ICTs can be used to optimise the current NPM system further, through, for example, new ICT-enabled opportunities for evidence-based service provision, fraud detection, or enhanced trust in service relationships with the general public. NPM is not at all dead in the information age, as some academic colleagues believe (Dunleavy et al., 2006), but very much alive.

NPM is not primarily inclined to support transformation. On the contrary, within an NPM environment each individual silo of government is focused on developing policy solutions needing to be implemented – solutions usually predetermined by the minister's needs, within constrained budgets, and not especially open to deliberation. Solutions need to tick pre-defined outcomes in what is in effect a vertical scheme. If you as a citizen are in a situation which does not match the organisational fragmentations of government, it becomes your problem to join it up. In New Zealand, having a child with autism is a good example of a situation in which parents are struggling with joining up a wide range of siloed government agencies.

This example is what we call in academia a 'wicked problem' (e.g. Conklin, 2006), a complex issue which is difficult to grasp by its very nature: it involves an issue with many interlinked factors, a permanent lack of information and therefore a high degree of uncertainty, multiple perspectives on how to define the problem as well as its solutions, multiple individuals, government agencies and other organisations affected by it, and established governmental frameworks which make change very difficult to achieve. Public managers find themselves increasingly

confronted with these wicked problems. At the same time, society is putting pressures upon government to help with and solve these problems, pressures which are often reinforced by societal crises, making insufficient government support and a lack of joined-up government explicit. Obviously, these wicked problems hit the decentralised, rationalised and efficient NPM system full on, causing major struggles in, for instance, in determining shared outcomes among agencies involved, appropriate budget allocations and accountability structures. Interestingly, however, exceptions to these vertical 'rules' and practices can be observed in the front line of the New Zealand NPM system. It is here that small pockets of what I call 'horizontal forms of innovation' can be found. The research project 'Better Services for Kiwis', which is being conducted under the Emerging Issues Programme of the School of Government at Victoria, led by Derek Gill with research contributions from Elizabeth Eppel, Bill Ryan

...from an informational perspective on E-Government, if we use ICTs in government we are actually abandoning traditional information practices and activities.

and myself, demonstrates that many front-line staff members in New Zealand are doing an excellent job in achieving innovative solutions by breaking out of that paradigm of vertical policy formation and implementation. These front-line staff commit additional time, energy and resources to promote the unique situation of the citizen against the top-down, pre-defined outcomes of government. They move around or break down silos and arrive at effective citizen-centric solutions (Gill et al., 2007).

The 'Better Services for Kiwis' project, and others too, such as the New Zealand Bioethics Council project, where new, horizontal forms of public engagement are being explored, help us to consider where government might be able to look sideways instead of following a vertical, rationalised and fragmented track for solving complex public policy problems: where, in fact, government could meet the people, share information and jointly define with them potential solutions; where, from a new public management point of view, available 'social capital' in New Zealand – social innovation potential which is strongly embedded in New Zealand's 'number 8 fencing wire mentality' – can in effect become economic capital for this country. Solving wicked problems effectively in horizontal ways can not only increase the quality of life in New Zealand, but also remove some of the opportunity costs of vertical government. Transformation need not be a 'government only' process, therefore.

ICTs as disruptive technologies

Another possibility is that ICT-enabled transformation in government and the new public management system may not have been visible to us so far. Similar to other technical revolutions in the past, ICTs are *disruptive technologies* (Christensen, 2003): the distinctive capabilities of ICTs, namely that they act on *information*, enable us to do things differently (Castells, 1996). As information is ubiquitous in government, the innovation potential of using ICTs in government and its relationships with society is both substantial and fundamental (Taylor, 1998). We do not see this particular potential for innovation if we are taking a restrictedly technical perspective on E-Government; nor if we are taking a restrictedly managerial perspective on E-Government (Taylor and Lips, 2004). We do see it more clearly, however, if we take an *informational* viewpoint to explore E-Government in operation empirically. The effectiveness of taking an informational point of view becomes increasingly strong now that E-Government is becoming more and more transactional and interactional (Lips et al., 2007; Taylor et al., 2007).

For example, if we consider the application of a multifunctional smart card for a range of public services in UK local government from a technical point of view, we can see a card which is secure, reliable, and has the capabilities to carry a lot of personal information about the cardholder and exchange this information with service-providing organisations. If we consider the application of this multifunctional smart card from a managerial point of view, we can see an expensive ICT project with limited added functionality over traditional card applications like a library card or student ID card, and with enormous additional political costs in terms of trying to join up government in the multifunctional smart card's back office. However, if we take an informational perspective towards the use of this smart card and explore what information is being collected, shared and used in service relationships, we observe that whilst there is very little personal data sharing between the few lined-up (not joined-up!) public service providers, nonetheless 'loyalty points' are collected, stored and spent as a result of using the smart card in ways considered as good 'citizen behaviour', such as selecting healthy food in the school canteen or using the right garbage bins for rubbish collection.

Let me give you a further example from our E-Government research in the UK (Taylor et al., 2007; Lips et al., 2007). We do not see any transformation if we look at the way in which, in implementing an e-benefits project in the UK, an official conducts a face-to-face interview at the benefit claimant's home, using a tablet personal computer with wireless communication capabilities to process the claim and at the same time collect necessary proofs of identity, such as a national insurance number. Following this initial registration and successful acceptance of the benefits claim, housing and council tax benefit claimants' information is electronically

sent to the Department of Work and Pension's Housing Benefits Matching Service. The DWP will run both what they call 'logistic regression' processes and risk analysis processes on that data to look for claimants whose circumstances are likely to change frequently, and therefore are more likely to be associated with fraud or error in the future.

Taking an informational perspective to look at this case, we can see that personal information of the benefit claimant, in combination with general information on behavioural patterns of claimants in the past, is used to assign a benefit claimant to a predetermined category against which there is an assigned risk score. This assignment to a particular 'social category' determines the frequency and intensity with which the claim will be reviewed. The lowest risk categories are in the pensioner groups, and the highest risk categories are in working-age claimants, with a specific subset of single parents living in private landlord accommodation being the highest risk of all. Individual risk scores are sent to the local authority, with recommendations attaching for their claim review regime. The effect of this is that citizens are being located differently by local inspectors in terms of the trust that can be assigned to them as claimants and, with that, the administrative assessment of which inspection regime is needed to check upon the claimant.

If we consider this E-Government case study in the light of administrative decision making, we can see fundamental changes in the way public servants are making assessments on the basis of newly available information on the citizen (Lips et al., 2007; Taylor et al., 2007).

In general, from an informational perspective on E-Government, if we use ICTs in government we are actually abandoning traditional information practices and activities. We are starting to do things differently than we have been used to so far. We are starting to collect, process, manage, analyse and assess information differently in government, and, in doing so, we are also starting to relate differently to citizens and society (Lips, 2007a).

The transformational power of newly available information for government

Governments are changing as a result of using ICTs, deliberately or otherwise. These changes become particularly visible if we are deploying an informational perspective. In using this particular perspective it also becomes clear that the technical capabilities of new ICT applications do not fully determine the change outcomes. It is the people who are using newly available information who are bringing about transformation in government and governing. It is the people, therefore, not the IT systems, who will be at the basis of government and governing in the information age – of the more informationalised as well as horizontalised Government 2.0, compared to vertical Government 1.0 as we know it today (Lips, 2007a).

Transformation as a result of E-Government initiatives can be observed on the vertical axis of government, as demonstrated by research findings from E-Government case studies in our research project at the Oxford Internet Institute (Taylor et al., 2007; Lips et al., 2007), as well as on a horizontal dimension of governing, as we saw happening, for instance, in the new forms of public engagement in drafting the new New Zealand Police Act. For reasons mentioned above, such as the requirement of institutional enablement, transformation on the vertical axis may not happen that frequently or straightforwardly; nor may it necessarily achieve more *citizen-centric* government. On the horizontal dimension of governing there is not so much E-Government activity or involvement of the New Zealand government, yet.

It is the people and the way they are able to use the capabilities of newly available ICTs which seem to be crucial to achieving any transformation at all

However, as we can gather from survey results on how, and to what extent, New Zealanders are using ICTs,ⁱⁱ the transformational potential for the New Zealand government is already profoundly present. It is up to government now to seize this potential: to 'open up' innovation on a more horizontal dimension; to include citizens and other stakeholders in E-Government initiatives to access, use and create information related to societal issues in new ways; and, therefore, to start doing things differently, outside the constraining vertical silos, instead of further optimising fixed policy solutions and prescribing those to information society citizens.

So, what are the challenges and opportunities for developing Government 2.0 in New Zealand? How can government escape the narrow, vertical silos of institution-driven business optimisation and become more horizontally focused for achieving socially enabled innovation? How can the tremendous reservoir of social capital *in* New Zealand become economic capital *for* New Zealand as well?

New Zealand public management as it is today needs to become willing to reinvent itself again in the emerging information society. It needs to open up for its *citizens* instead of its primary customers; to start an inclusive public debate about what is important for information-age government; to include citizens in the design stage of E-Government initiatives for truly achieving citizen-centric government; to connect to the information society and allow for experimenting and engaging in some controlled risk taking, to be able to facilitate non-linear thinking and therefore to make the right public decisions in establishing the new social contract with society required for the emerging information age; to bring together and assist the people who can actually

make the difference in driving ICT-enabled government performance. In doing all of this I believe that the people of New Zealand can demonstrate to the world again what *new* new public management can mean.

Moving into the information age, trying to shift from Government 1.0 to Government 2.0 will therefore require a broader and deeper understanding of transformations on the vertical axis of government as well as on the horizontal dimension of governing (Lips, 2007a). It will also require a broader and deeper engagement of public servants working on E-Government initiatives with people across government and with people living in the emerging information society. Moreover, it will require safe and controlled public spaces for critical reflection on and experimenting with how things may be done differently in government and governing in an information age.

As a source of inspiration we may want to look at the experience with the so-called 'Kafkabrigade' in the Netherlands. In trying to tackle 'wicked' problems or excessive administrative burdens from a citizen-centric point of view, the Netherlands national government has opened

up a website (www.kafkabrigade.nl) where Dutch citizens can post their problems with joining up siloed government. The Dutch government has made a commitment to not only address these individual problems with 'Kafkanian' excessive administration, but also to publish the problem together with its solution on the Kafkabrigade's website. The Dutch government's main objective is to become a transformed, 'different government' for Dutch citizens.

This project demonstrates in particular the transformational power of bringing together *people*, horizontally and vertically, through enabling new ways of accessing, sharing, collecting, using and re-using information. It is the people and the way they are able to *use* the capabilities of newly available ICTs which seem to be crucial to achieving any transformation at all: a good example of what so-called 'electronic government' or 'E-Government' might entail for government in the information age.

i 'Police wiki lets you write the law', 26 September 2007, available at www.stuff.co.nz/4215797a10.html.

ii See, for instance, Statistics New Zealand, December 2006, and the *Economist* e-Readiness rankings, 2007.

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By ACCIDENT or DESIGN: Changes in the

Structure of the State of New Zealandⁱ

Introduction

Discussion of the New Zealand experience with the public sector reforms of the 1980s and 1990s has emphasised fragmentation of the structure of the state under so-called new public management. The first sentence of a leading standard textbook, *Government Administration* (Polaschek), reads as follows:

In New Zealand – a country of a few million – the work of government administration is shared by forty one departments of state and almost one thousand local authorities, government sponsored companies and public or semi-public corporations.

The only surprising thing about this quotation is that it dates from 1958, when New Zealand's population was two and a half million.ⁱⁱ In 2007, with a population of over four million, the work of government administration was shared by fewer than 350 organisations (excluding schools and subsidiaries), around 25% of the 1958 total.ⁱⁱⁱ

Derek Gill is a senior public servant on secondment to the Institute of Policy Studies (IPS). He is leading the public management stream of the Emerging Issues Project under way between the IPS/School of Government at Victoria University and the public service. Two particular areas of focus are a project on engaging users/citizens in the design of public services and a project on managing for performance.

This article will try to sort out myths from realities by exploring three broad questions:

- Has the state in fact become more fragmented?
- What is the evidence about the effect of structure on performance?
- What do the likely future trends imply for the structure of the state?

Fragmentation of the state?

New Zealand has a long history of creating single-purpose ad hoc bodies, and often these have been very small. This predates the new public management reforms of the 1980s and 1990s and indeed continues into the early 21st century. So has the state become more fragmented?

The short answer is that, other than for the most recent period, we don't know. The longer answer is that we don't know because in order to answer the question, 'fragmentation' needs to be clearly defined and consistent data should be used to delineate what constitutes the state. Fragmentation is relatively easy to measure: it refers to the number of separate administrative units in the government system, and that includes vertical structure (the number of tiers) and horizontal structure (the number of organisational units within a tier).^{iv}

The harder part is that there is no consistent historical definition of what constitutes a public body that is part of the state. The notion that Fonterra is part of the state would be greeted with derision and incredulity in 2008. The view that the same legal body (the Dairy Board) was part of the state would have been a statement of the obvious in 1936. The introduction of accrual accounting, which required the

creation of the Consolidated Crown Financial Reporting Entity, provided a consistent basis for defining central government. Since 1991 consolidated government accrual accounts have been available, but no historical time series exists prior to that.

History does enable us to draw some conclusions about trends in the state sector (and hence the degree of fragmentation). In summary, the long-term trends in the structure of the New Zealand state include:

- '[a] large number of small departments and a small number of large departments' (Schick, 1996, p.28), so the overall number of departments is consistently high by international standards (40-50);
- a propensity to create ad hoc arms-length organisations (in 1984, 25% of state sector employees worked in departments; by 2007 the proportion had fallen to 20%);
- a propensity for restructuring: of 41 departments in 1957, only 21 existed in 1995 (often with changed functions and names).

Within these longer-term trends there were some significant changes:

- growth in the number of ministerial portfolios, from around 20 in 1912 to 58 in 2007 (together with 14 other responsibilities and 37 associates);
- consolidation in local government, from 850 mainly single-purpose authorities in 1989 to 74 territorial local authorities and 12 regional councils;
- shedding of commercial functions from departments in the 1980s (via the creation of state-owned enterprises and privatisation) and 1990s (e.g. the Public Trust, Valuation New Zealand and Learning Media).

New Zealand's administrative history can be broken up into three phases:^v 1912 to mid-1984, the period from the introduction of the initial public service reforms through until the 1984 election; mid-1984 to late 1999, which was the period of extensive public sector reform; and late 1999 to today.

Phase one: 1912–1984 – governance by hierarchies

Throughout the period until mid-1984 the state played an active role in the economy, providing commercial services often through trading departments or local government enterprises.

Local government was a creature of central government, consisting of a plethora of single-purpose organisations with a prescribed and narrow mandate. The role was limited to a defined set of local service functions ('roads, rubbish and rats') and some commercial activities (e.g. port services), with central government undertaking a number of functions which in comparable jurisdictions would be in the domain of local government. These include providing fire services, policing, public schooling and public hospital services.

Central government consisted of a Cabinet of up to 20 ministers and a greater number of portfolios, served by 35-45 departments of state and a plethora of non-departmental public organisations. Over time the relative

share of central government employment accounted for by ministerial departments shrank from 39% in 1949 to 35% by 1971, and 25% by 1984.^{vi} Despite a royal commission on the state sector in the early 1960s, no consistent design principles or meta-design were employed. There were repeated unsuccessful attempts to improve the performance of individual commercial functions (such as the railways) by moving them into a corporate form. In Julian Le Grand's terminology, this was a state where providers were viewed as 'knights' and consumers as 'pawns'. In summary, the structure of the state 'morphed', or in the words of the title of this paper it emerged 'more by accident than design'.

Phase two: 1984–1999 – governance by markets and contracts

The period after the 1984 election was an era of significant change in both central and local government. In central government the initial changes were concentrated in the commercial departments but subsequently extended to the entire public sector, with:

- the separation of commercial and non-commercial functions and the break-up of trading departments;
- the creation of state-owned enterprises (SOEs);
- the creation of the concept of Crown entities;
- the Cabinet increasing in size and the number of departments remaining broadly stable but the number of Crown entities growing significantly.^{vii}

The central government reorganisation and restructuring was based on a set of machinery-of-government principles:^{viii}

- separation of ownership and purchase;
- separation of policy from operations;
- separation of policy from purchase and provision;
- the introduction of competition; and
- reallocation of function for focus, synergy and transparency.

One can argue about the consistency with which these were applied, but there was no doubting the existence of a comprehensive design over this period.

It was also an era of significant local government reform, with the consolidation of single-purpose organisations into multi-purpose bodies to serve defined areas. This resulted in the amalgamation in 1989 of around 850 organisations into 86 local bodies plus a handful of subsidiary bodies, such as the Auckland Regional Transport Authority.

There was also a greater emphasis on citizen service users as 'kings and queens' rather than 'pawns', and concern about monopoly providers acting as 'knaves' rather than 'knights'. There was a changed role and reduced ownership by the state of commercial activities.

Phase three: 1999–2008 – mixed governance by networks, hierarchies and communities

Recent developments are always more difficult to characterise as they are still evolving. Although some authors, such as Chapman and Duncan (2007), explore the suggested

emergence of a 'new' New Zealand model, overall the evidence basis for this is weak (see also Boston and Eichbaum, 2007). While it is clear what the government is moving away from, it is less clear what institutional design principles are being used. This article explores this matter with regard to the structure of the state.

One significant change was in local government, with the move from specific narrowly-defined function to in effect giving local authorities a general power of competence. Local authorities are now charged under the new Local Government Act 2002 with pursuing four broad 'well-beings' or outcomes – social, cultural, economic, and environmental in the context of sustainable development. No significant central government functions or funding have been devolved, however. Local government in June 2007 employed 12% of the total public sector workforce and historical SNA data suggest that local government expends between 10 and 15% of final government consumption. Note that one potential effect of the reforms would be to increase vertical fragmentation by introducing an additional layer of government into areas where traditionally only central government interacted directly with civil society.

In terms of central government, there was a distinct change in the rhetoric following the 1999 general election. Whether that rhetoric is reflected in reality on the ground, however, is arguable. There were modest moves towards devolution and decentralisation, such as the local government reforms discussed above and the health reforms, with the increased potential for local voice through local representatives on district health boards. In other areas, however, the trend has been opposite. In education, for example, local autonomy of schools has been reduced with the removal of direct resourcing. In workers' compensation (ACC) the limited scope for provider choice for the earner's account was removed. One clear trend is for a reduced role for competition in quasi-markets in a number of sectors, such as health.

So what appears to underpin the patterns of the structure of the state? Is there an intelligent design evident behind the changes since 1999, or is the structure now morphing by accident as it did for most of the 20th century?

To address this question this article presents an analysis of the changes in the structure of central government since 1999. It does not include changes, often triggered by a new chief executive, in the way an agency organises itself internally. Instead, it focuses on external Cabinet-mandated

Table 1: Consolidated machinery-of-government changes, 1999-2007: summary of results (excluding name changes)

Numbers of Agencies (2007)	Department (40)	CE and 4th Schedule (137 excluding schools, subsidiaries)	SOEs (18)	Total (excluding name changes)
Change in form	2	31	3	36
Function change	0	12	2	15
Merge/break up	6	26	4	36
Total turnover	8	69	9	86
Change in form %	5%	22%	17%	18%
Function change %	0	9%	11%	8%
Merge/break-up %	15%	19%	22%	18%
Total turnover %	20%	50%	50%	44%

changes in the structure of central government. All the external central government machinery-of-government changes between April 1999 and July 2007 are classified into changes in legal form, merger and demerger, and new function/function disestablished. (More detail on the analysis and supporting data are available in a separate paper from the author.)

The data in Table 1 are consistent with 'muddling through' in that there is no apparent pattern to the changes in the machinery of central government. Key conclusions include:

- Fragmentation: a small (5%) net reduction in the number of organisations – largely accounted for by consolidation in the tertiary education sector as four colleges of education and a number of small polytechnics were merged.
- Departments: the number of departments has witnessed a small decline (to 40) but remains in line with the long-term level over the 20th century.
- SOEs: traffic in both directions, with commercial objectives replaced by less commercial objectives (e.g. TVNZ and ACC/At Work) but other commercial activities moved to SOE status from Crown entity company status (e.g. Animal Control Products, Learning Media, Valuation New Zealand).
- The Crown entity sector faced the greatest change (50% turnover since 1999), with many mergers and changes in legal form.
- No preference for a particular legal form: for instance, since 1999 three functions have been moved *into* departments from Crown entities (the Special Education Service into the Ministry of Education, the Building Industry Advisory Council into the Department of Building and Housing, and the Casino Control Authority into the Department of Internal Affairs) and four moved *out of* departments (the Public Trust, the Energy Efficiency and Conservation Authority, the Tertiary Education Commission and the Office of the Auditor and Controller-General).
- Existing public sector organisations taking on or shedding function explains little of the change (8%).
- Active use of change in legal form as well as mergers and break-ups (both 18%).

The key trend was not reform leading to the reduction in fragmentation, but rather the extent of change, with 44% of state sector bodies subject to Cabinet-approved external restructurings.^{ix} In addition, more than half of departmental chief executives restructured their organisations within

the first year of their appointment. Such is the scale of restructuring that a recent survey commissioned by the State Services Commission (SSC) showed that in 2007, 55% of state servants reported that 'their organisation had been involved in a merger or restructuring over the last two years'. The interesting thing about this result is that for the identical survey question in the United States, the corresponding number was 18%.

One area where there has clearly been no significant reduction in fragmentation is in the structure of Cabinet. This is important as in New Zealand, unlike other comparable jurisdictions, there is no direct rule linking ministers and their portfolios to departments. Thus, there are a number of configurations possible. The most common is one department and many ministers, but we also observe one minister to one department and occasionally one minister to many departments.

...there is little evidence of any improved performance from the restructuring, despite a significant increase in spending over the period.

In February 2008 there were 19 Labour Cabinet ministers, one non-Labour Cabinet minister, two non-Labour ministers outside the Cabinet and six Labour ministers outside the Cabinet. But most notable is the number of discrete areas of ministerial responsibility. This currently totals 109, with 58 ministerial portfolios, 14 other responsibilities and 37 associate ministers. Moreover, these portfolios are often fragmented across multiple players. In the justice sector, for example, there are seven departments, six Crown entities and seven ministerial portfolios (including other responsibilities). The latest Cabinet reshuffle (in November 2007) did, however, cluster all the portfolios that relate to innovation under one minister, which has improved the priority setting and alignment for the relevant entities.

These multiple ministerial roles and portfolios are important because they significantly complicate the problem of coordination and priority setting. The bigger the numbers, the greater the problem. Network theory shows how adding one more node increases the number of connections exponentially. There is an old adage of public administration that 'the government gets exactly the amount of co-ordination it wants'. In the case of New Zealand, fragmentation begins at the top.

What is the evidence about the impact of structure on performance?

One of the striking features of the academic literature is how little is actually known about institutional design and how little agreement there is on the link to performance. As Boston

et al. (1996, p.70) observe, 'There is no scholarly consensus on these questions with opposing doctrines offering opposite prescriptions.' These doctrines or 'administrative arguments' can be expressed with considerable over-simplification as a contrast between proponents of 'small is beautiful', who emphasise the gains from 'focus' and specialisation, and advocates for 'big is better', who express concern about the effect of 'fragmentation'. Concerns expressed about fragmentation at the organisational level include:

- loss of economy as larger scale provides lower unit costs;
- loss of efficiency as larger-scale units are better able to coordinate activities and prioritise across activities; and
- loss of effectiveness as larger units are more resilient, have a deeper capability and are able to invest in learning.

Proponents of 'small is beautiful' counter with concerns about the lack of focus of monolithic conglomerates, resulting in:

- loss of economy as larger span of control leads to higher cost above a tipping point;
- loss of efficiency as larger units with multiple and sometimes conflicting roles are difficult to oversee, leading to organisational slack; and
- loss of effectiveness as smaller units have greater adaptability because parts can innovate and learn from each other.

These contrasting views were framed in terms of organisational performance. How does the overall performance of the system as a whole stack up? The World Bank has developed World Governance Indicators (only available since 1996) to compare country performance in government effectiveness, regulatory quality, corruption control, rule of law, political stability, accountability and voice. These measures consistently place New Zealand in the top group of up to seven countries on all governance measures. This is reinforced by the 'Kiwis Count' survey data (SSC, 2008) released in April 2008, which show that New Zealanders' experience of public services is comparable to that of Canada, a well-regarded jurisdiction which also featured in the top tier on most but not all of the World Bank Governance Indicators. This is consistent with the conclusion of public sector management reviews which suggests that, while as always there is room for improvement, New Zealand has been relatively well served by its system of public management and the staff who work within it.

More importantly, the other states consistently in the top group on the World Bank Governance Indicators – Denmark, Iceland and Sweden – are all relatively 'fragmented', with a clear structural separation between policy ministries and delivery agencies. Correlation does not imply causation, but casual empiricism does not support the notion that fragmented systems necessarily are the low performers.

The analysis of the structure of the state over the last decade presented in this article showed that the key trend was not reforms leading to the reduction in fragmentation, but rather continued change and restructurings. This raises

questions about the available evidence about the impact of restructurings on performance.

Internationally there is limited empirical evidence on whether public reorganisations improve performance. As one author has observed, ‘while few rigorous evaluations have been undertaken, the large number of informal studies have been consistently *negative*’ (Downs and Lackey, 1986, p.185). Similarly, the private sector experience is that costs of change are higher, benefits are smaller and they take longer to be realised. ‘Restructuring is a powerful but high risk tool for organisational change. In the short term, it almost invariably produces confusion, resistance and even a decline in effectiveness’ (Bolman and Deal, 2003, p.92).

Little New Zealand evidence is available, with the notable exception of commercialisation. One key trend since 1984 has been the move of commercial functions into commercial structures. Available reviews of New Zealand experience with commercialisation are generally positive.

One of the few New Zealand examples where an evaluation was explicitly commissioned as part of a restructuring was reforms of the health sector embodied in the Health Services Act 2001. It showed ‘no dramatic impact ... on performance’ (Mays et al., 2007). The overall summary concludes that while the reforms have been very successful in achieving better sector buy-in, there is little evidence of any improved performance from the restructuring, despite a significant increase in spending over the period. There are at least two possible interpretations of this result: either it is too early to tell, or business as usual. The evaluation finds some support for the too-early-to-tell view: ‘a large part of the period covered by the evaluation can justifiably be seen as the establishment phase of the new system’ (ibid.); but much of the argument is also consistent with ‘business as usual’ and ‘continuity with the previous period’. In the latter view, the changes to the formal governance structure did not impact upon the real determinants of system performance.

This raises an apparent paradox: there is limited agreement or evidence on the impact of restructuring on performance (excepting comprehensive commercialisation programmes), and what exists is generally neutral or negative. But at the same time SSC data suggest that nearly 50% of state servants in New Zealand have been through a restructuring in the last two years. What explains this apparent paradox? This paradox raises the possibility that change is based on hubris in the sense of pretence of knowledge that doesn’t exist, or inadequate understanding of the complexity of organisational dynamics. One possible explanation is that the objective with restructuring is not to improve performance directly. Instead, it may be better understood as symbolic rhetoric used to justify change.

Organisational change can be used to signal the ‘illusion of progress’. The famous apocryphal quotation often

attributed to Petronius in 210 BC (Downs and Larkey, 1986, p.184) makes the point well:

We trained hard ... But it seemed that every time we were beginning to form up into teams we would be reorganised. I was to learn later in life we tend to meet any new situation by re-organising; and a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency and demoralisation.

These are big challenges even for a state with highly effective government like that in New Zealand. In general, the challenges are not amenable to central bureaucratic Newtonian machine-age solutions.

Conclusion – what do the likely future trends imply for the structure of the state?

The government of the future will face increased competition and interdependence, and developments are increasingly complex, multi-sourced and multifaceted (OECD, 2001). Looking ahead, the next generation of issues could include:

- internationalisation – we can’t do it on our own; both competing and working with other nations (e.g. regulation of therapeutics);
- responsiveness to ageing and more diverse populations (e.g. Pasifika and Asian people in Auckland);
- technology enabling changes (e.g. personalisation of services);
- increased expectations of generations Y & Z for individualised services;
- effectiveness (making a difference) not efficiency (doing more with less); and
- the ‘wicked’ problems and opportunities – gangs, family violence, drug abuse – being hard, unstructured, chaotic problems.

These are big challenges even for a state with highly effective government like that in New Zealand. In general, the challenges are not amenable to central bureaucratic Newtonian machine-age solutions. These are soft systems problems which require leadership and changes in styles of working rather than changes to hard systems like structures.

Responding to these challenges will require sophisticated responses, such as establishing networks to address cross-cutting issues. This will place a premium on established relationships and increase the costs of the ceaseless restructurings that undermine those relationships. The main learning for New Zealand is that we will need to be cautious

about the use of the restructuring lever, an idea of the early 20th century, if we want to get on and address the problems of the 21st century.

- i This is a shortened and edited version of a paper presented at the 'After the Reforms' symposium in Wellington, 28-29 February 2008, hosted by the School of Government at Victoria University.
- ii The original text had 'two and a half million' not a 'few million'.
- iii Forty departments, 197 other central government bodies (excluding schools and subsidiaries) and 86 local bodies. It is not entirely clear how Polascheck estimated 1,000 government organisations in 1958 (and hence whether subsidiaries and schools were included).
- iv An alternative measure of fragmentation is the degree of concentration, but there is no readily accessible data to measure trends in central or local government concentration.

- v Polascheck (1958) provided an account of the evolution of the state from 1833, with early Pakeha settlement, through one omnibus department – the Colonial Secretary's Office – in the 1840s through to the structure of the 1960s. The report of the Royal Commission on the State Services (the McCarthy commission), 1962, and Boston et al. (1996) provide a summary of more recent developments.
- vi The corresponding number in 2007 is around 20%.
- vii The author estimates that 50% of current Crown entities' and departments' formation post-dates 1984: e.g. 50% of Crown entities in existence in 2007 were incorporated before 1984 and around 50% of current departments also existed at that time (albeit with functions gained or lost).
- viii See Scott (2001, p.21) and Boston et al. (1996, p.86) for a discussion.
- ix Comparable data from Norway (Lagried et al., 2008) shows a similar level of restructurings, with 55% of public bodies in Norway being restructured between 1995 and 2007 compared to 44% in New Zealand over the period 1999–2007. Unlike New Zealand, in Norway these changes were dominated by break-ups and mergers.

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Richard Norman

At the CENTRE or IN CONTROL?

Central Agencies in Search of New Identitiesⁱ

Introduction

The New Zealand public management model is a product of 1980s and 1990s enthusiasm for replacing hierarchy and centralised bureaucracies with contracts and market-like methods for delivering public services. Fervour for change from tradition is illustrated by the titles of these books published in 1992, a high-water mark for public sector reform in New Zealand: *Liberation Management* (Peters, 1992), *Reinventing Government* (Osborne and Gaebler, 1992) and *Breaking through Bureaucracy* (Barzelay, 1992).

New Zealand central agencies – the Treasury, the State Services Commission and Department of the Prime Minister and Cabinet – have at different stages since 1988 been

Richard Norman is Senior Lecturer in Human Resource Management and Industrial Relations in the Victoria Management School, Victoria University of Wellington. He has written extensively on public management issues, including *Obedient Servants? Management freedoms and accountabilities in the New Zealand public sector* (Wellington: Victoria University Press, 2003). He can be contacted at Richard.Norman@vuw.ac.nz.

active ‘reinventors’, ‘liberating’ other agencies from detailed financial and personnel controls, but at times also viewed by other public sector agencies as bastions of bureaucracy.

Central agencies internationally have responded in contrasting ways to public sector reform (Peters, 1998):

- central agencies are often the source of reform, and drive reform efforts; and
- central agencies have a difficult time reforming themselves, and are generally the least reformed parts of government.

In New Zealand, the Treasury was the dominant reformer of the 1980s, with the State Services Commission a reluctant starter, forced to join after the appointment in 1985 of reformer Rod Deane as its chairman. The only central agency to remain untouched has been the small coordinating policy group of the Department of the Prime Minister and Cabinet, maintaining effectively a political ‘fire-fighting’ role.

More than most jurisdictions, New Zealand has devolved responsibility for managing people and resources to chief executives of line agencies and to Crown entity boards. In the process, central agency roles have changed from being hierarchy-based control functions in a unified bureaucracy to their being agencies which have needed to learn how to, in the words of one senior manager, ‘cajole, encourage, nudge, inspire and bring along others’.ⁱⁱ

The State Services Commission, the former personnel ‘control function’, once the employer of 60,000 public servants,ⁱⁱⁱ has experienced a series of identity crises as it has adapted to a much reduced role as the employer and performance manager of public service chief executives. More recently it has been given new roles in e-government, leadership development, and standards-setting for the wider state sector. The new roles have come to ‘involve sticking our necks out and saying which way will lead towards a

better world’, rather than taking the safer road of ‘waiting to criticise people for having gone the wrong way.’^{iv}

The Treasury, which reinvented itself by devolving responsibility for routine accounting through the financial management reforms of the late 1980s and early 1990s, has faced different identity challenges since its ‘glory days’ as the driver of reform. That period of major influence and large budgets associated with asset sales was followed by the less exciting routines of managing the new, devolved system of accounting and budgeting. Particularly since the election of the Labour-led government in 1999, the one-time reform leader has been kept in its place by a Cabinet dominated by leaders who were opposed to the recipe for change in the late 1980s. The scepticism of the minister of finance, Michael Cullen, showed initially with his unwillingness to have a Treasury adviser in his Beehive office, and more recently with his response to the Treasury’s 2005 post-election briefing papers. Recommendations for tax cuts in the briefing were dismissed as being the usual ‘ideological burp’ from Treasury.

A strong economy has also diminished the influence of the Treasury, creating concern among senior managers about complacency in the organisation. Instead of the driver being financial crisis, as during the 1980s, the challenge is to pursue new opportunities. To quote one central agency manager:

This is a really exciting time for New Zealand, when as a country we’re really establishing a sense of nationhood. It’s a time when there are huge opportunities as well as huge risks out there in an economic and financial sense. A really strong Treasury at the centre – strong in the sense of the advice that it can give and the services it can deliver – can make a real difference.

In the view of a different manager, the ‘very benign economic and fiscal position’ has meant that ministers have not really required assurance about performance, and have found it quite easy to ‘provide more money’ when symptoms of performance issues developed. That situation has changed more recently as ministers have become increasingly sceptical about what the ‘more money’ approach has achieved.

The New Zealand central agency least affected by the late 1980s reforms has been the Department of

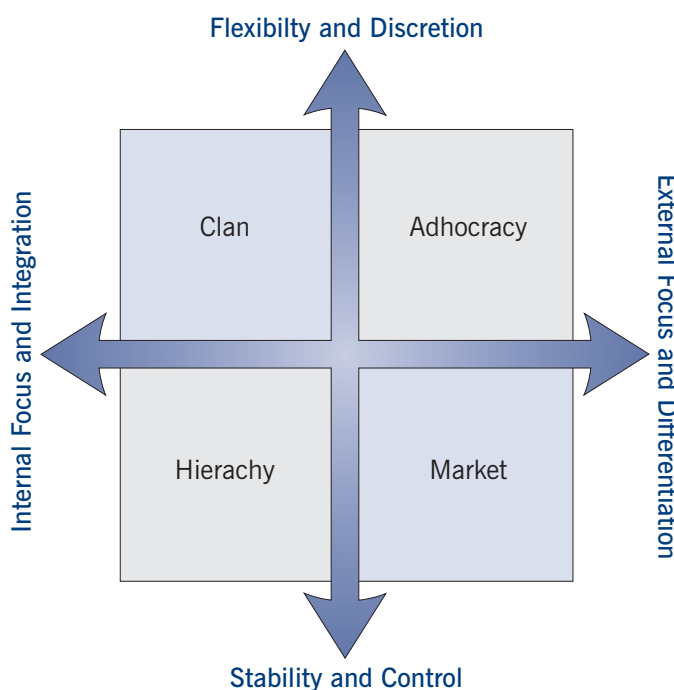
the Prime Minister and Cabinet, which has the same sized policy unit as it had in the late 1980s. It has avoided following the path of counterpart agencies in Britain and in Australia, where political pressure for prime ministers and premiers of Australian states to be presidential in style has resulted in large, White House-style offices. Despite recommendations that longer-term strategic thinking be part of its function, the department largely focuses on reacting to the political priorities of the prime minister and using its power of position as a coordinator of whole-of-government issues.

Among the identity challenges that have emerged for central agencies during a period of decentralisation, the most significant leadership issue is well captured by Sapolsky (1967), who observed that innovative organisations work best with central authority that is too weak to interfere with spontaneous creativity, yet strong enough to embrace and oversee the implementation of creative ideas. In its reforming zeal to liberate and reinvent government systems, New Zealand may have succeeded with the first requirement but seriously weakened the ability of its central agencies to deliver on the transfer and implementation of good practices. Much of the current debate about the role of central agencies results from this tension.

Competing organisational values

The challenges facing central agencies are usefully interpreted through the lens of the ‘competing values’ framework (Cameron and Quinn, 2006). The pre-1988 public service emphasised hierarchical structures and a clan-like focus on lifetime employment. Internal focus and integration, coupled with stability and control, were major features of a public service model in place since 1912. The State Sector Act 1988, with its delegation of flexibility and discretion to chief executives and opening up of public service roles to external competition, was a radical move towards external focus and differentiation of public sector tasks. The reformers’ goal was to shake up a service characterised as unresponsive and bureaucratic, and improve performance through clarity about roles and pressures from contract and market-like mechanisms. In place of bureaucratic and clan management would come results-focused market and network modes of delivery, and an influx of managerial skills from the private sector. (See figure 1.)

Figure 1: Competing values model



Source: Cameron and Quinn (2006).

Instead of being control units at the centre of a large bureaucracy, the renamed ‘central’ agencies would have new roles exercising steering and monitoring functions at the centre of what Davis (1997, p.226) described as ‘a transparent universe of subcontractors, organised around statements of goals and strategic plans, concerned not with some nebulous public good but with meeting performance indicators set out in an agency agreement’.

The decentralised model adopted by New Zealand can be viewed as drawing on what was seen as 1980s best practice, embedding in legislation the most popular organisational form of the era. The models of the late 1980s were conglomerates, with small corporate offices using what Goold and Campbell (1987) described as a ‘financial control’ model to manage market-like relationships with diverse and often unconnected businesses. The business world was to learn through the subsequent performance of some diversified conglomerates,^v run at arms length using financial controls, that this was not necessarily a recipe for long-term success.

The values of contracts and networks were at their most dominant during the creation of the outputs-based budgeting system during the early 1990s, illustrated by this technique used by Treasury officials to prompt departments to prepare meaningful output statements:

Imagine your department is not here any more. It’s gone. The government wants to buy those services in the private sector. What should they contract for? How would you write the contract? (Norman, 1997, p.9)

A core message of the competing values framework is that organisations can have too much of a good thing if they seek to adopt ‘one best way’. Effective and sustainable management requires a balancing of the competing values and seeking solutions that use the strengths of each. Contract and market models for the health sector and market rents for public housing proved politically unpopular, and Labour-led governments since 1999 have favoured clan-style responses of collaboration and the building of public sector capability over market solutions of competition and contracting to networks of providers.

The political rebalancing of competing values has affected central agencies significantly since 1999. Initially, political concerns focused on fragmentation of services and whether ethical standards were sufficiently consistent across the decentralised public sector. The ‘Review of the Centre’ (SSC, 2002) was established to respond to these concerns. Three years later, the political concern was about whether central agencies were sufficiently clear and coherent in their messages, leading to the 2006 review of the role of central agencies in ‘promoting and assuring state sector performance’ (Treasury, 2006).

Comparisons with Australia

Observations in this article about the changing roles of the New Zealand central agencies are part of a wider research project about the roles of central agencies across Australia and New Zealand, a comparative study made

possible through the creation of one of those new ‘clan-like’ structures, the Australia and New Zealand School of Government (ANZSOG).

In comparison with Australia, New Zealand has adopted a distinctly decentralised model of government organisation, with a weak centre being a notable feature. Table 1 compares New Zealand, with 4.2 million people, with Victoria, a state with a population of 5.2 million. Victoria opted in the early 1990s to have eight mega-ministries reporting to ministers, in contrast to nearly 40 departments/ministries in New Zealand. A distinctive difference between New Zealand and Australian jurisdictions is the relatively strong role of the New Zealand State Services Commission as the employer of public service chief executives. Equivalent organisations in Australia had even stronger identity crises as personnel controls were delegated, and chief executive appointments made by politicians working through departments of prime minister or premier rather than personnel commissions.

Table 1: Expenditure on central agencies in New Zealand and Victoria (NZ\$)

	New Zealand ^{vi}	Victoria ^{vii}
Treasury	\$52.5 million	\$271 million
Department of Prime Minister/Premier	\$15 million	\$620 million
State Services Commission (New Zealand), State Services Authority	\$58 million (42% for e-government)	\$11 million

Effects of financial constraint

A tracking of the financial fortunes of New Zealand central agencies over the past 20 years (see Table 2) shows most notably a relative reduction in the power of the Treasury. Current or former Treasury officials who experience nostalgia for the agency’s reforming role in the late 1980s and early 1990s remember an era when the agency was well funded operationally, and also had significant funds for the sale of state assets, which are not included in these operating figures.

Treasury-driven decentralising of accounting functions to line agencies, and advocacy of contestable funds, effectively reduced the future role of the organisation. The delegation of analysis roles to organisations such as the Ministry of Health, the Tertiary Education Commission and the Foundation for Research, Science and Technology also reduced Treasury’s range of coverage. Treasury officials might believe, as one suggested, that ‘there’s something in the water at Treasury’ which makes for more rigorous analysis than the other bodies might provide, but the trend has been away from scrutiny at the centre towards scrutiny at a sector level. While still one of the largest policy analysis organisations, the Treasury also has competition for advice. The Ministry of Social Development has been built up by Labour-led governments to provide a

social policy counterweight to economic advice. The Ministry of Economic Development was reshaped by a minister from a left-wing minority party in coalition with the Labour Party, a strong opponent of the 1980s and 1990s economic policies. It has also developed as an alternative source of advice about business and economic development.

The reducing influence and subsequent revival of the State Services Commission is evident in declining real budgets during the 1990s, once transition issues associated with reform were dealt with. The striking change has been since 1999, with the addition of a major new role as the initiator of e-government – networked services across government – accounting for 42% of the commission’s total budget in 2006-07. New commitment to clan-style management has resulted in major investment in staff development, particularly a Leadership Development Centre providing action-learning programmes for potential chief executives, and the Australia and New Zealand School of Government, which was established in 2003 with the aim of creating a smaller, southern hemisphere version of the Kennedy School of Government at Harvard University in the United States.

The Department of the Prime Minister and Cabinet, with its role of managing Cabinet processes, plays a central agency role through its 12-person policy group. This organisation has lived out the observation of Winston Churchill that ‘We shape our buildings, and afterwards our buildings shape us’.^{viii} The Beehive, which houses the Cabinet, has had the practical effect of limiting the potential size of an advisory group, with successive prime ministers and chief executives opting for informal and readily accessible advice within the Beehive over creating a large and specialised advice base. While the department has taken on special projects, most notably the health changes of the early 1990s, but also crime prevention and more recently housing affordability, it has retained its basic size and identity throughout the 20 years.

Discussion of the role of the centre and financial trends of the past 20 years needs to include reference to an agency which for more than 100 years was at the centre of government and exerted strong bureaucratic control over government engineering and construction. Engineers were effectively exiled (largely on the basis of advice from economists) from the centre of government in 1986, when the Ministry of Works and Development was converted into a state-owned enterprise, and later privatised. The dominance

of large-scale issues among the major current challenges for government and its central agency advisers suggests that this market solution might have removed core capability from the public sector. During a period when climate change, urban transport, the future of Auckland, reinvestment in rail and electricity generation capacity are among the major government agenda items, a lack of capacity for managing large projects is a major issue for New Zealand compared with jurisdictions such as Queensland or/and Hong Kong which have agencies that coordinate infrastructure development (Michael, 2008). (See table 2 below.)

Leading from a weak centre

President Harry S. Truman predicted that when General Eisenhower took over from him as president, ‘He’ll just sit behind this desk and say, “Do this and do that,” and you know what will happen? Nothing.’ (Neustadt, 1990, p.10)

A major role for central agencies is to ensure that ‘nothing’ is not the response of the public sector system to political decision making.

In their roles as information gatherers and advisers, central agency officials have powers similar to those of ‘staff functions’ in large private organisations, of advising the chief executive of the organisation about possible courses of action. The military origin of ‘staff roles’ was that of the adviser on a hill overlooking the battle field, with a sufficiently wide range of vision to advise a commander (like General Eisenhower) about deployment of troops. As Bellman (1986) observes, staff groups are rewarded for initiating change and making improvements, whereas operations groups are rewarded for stability that comes from finding a best way to work and sticking to it in the interests of efficiency. Conflict is built into the organisation structure so that the military commander can choose which perspective is most appropriate at different times. In their interactions with line roles, staff advisers will be seen at their best as judges, teachers, shopkeepers, bookkeepers, craftspeople and ministers. At their worst they will be seen as policemen, eggheads, operators, bureaucrats or gadflies. The potentially conflictual relationship is summed up in the old joke that one of the greatest of lies is: ‘I’m from head office and here to help you.’

Staff roles are broad in scope but shallow in their depth, in contrast to those of line specialists, who have roles that

Table 2: Trends in central agency budgets using 2007 dollars

	1987-88		1990-91		1993-94		1999-2000		2006-07	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
	(millions)		(millions)		(millions)		(millions)		(millions)	
Department of the Prime Minister and Cabinet	\$6,828		\$14,163		\$20,493		\$14,909		\$14,947	
State Services Commission	\$26,405		\$30,873		\$24,141		\$18,958		\$58,073 ^x	
Treasury	\$99,156		\$97,583		\$87,311		\$61,798		\$52,468	

Note: major one-off expenditures have been deducted.

are ‘narrow and deep’. Staff roles are invariably less easily measurable than those of line managers in charge of client transactions and processing routines. Staff roles operate with a longer time frame and are more generic, making it easier to move between organisations than it is for line staff with technical specialties.

The ‘wide and shallow’ brief of central agency advisers is well captured in this comment:

When we deal with any state sector agency on a specific issue, we know we’ll always be the person who knows least about that issue. We have to be the person in the room who is most interested in getting to the big picture in a way which engages with everyone. Effective central agency work requires combining analysis of the big picture with engaging other people. It is not just about analysis or the ‘schmoozing’ skills. We need a balance of both.^x

The frustration of central agency managers about motivating serious change from line agencies was evident from interviews. Central agency managers were concerned to get more of a sense of urgency for change.

One of those value-for-money questions was about how the large group of capital city policy advisers worked, seen as closer to a university model of the creation of new knowledge than that of a professional services firm.

If we want to get value for taxpayers’ money, rather than research to develop new knowledge, we should be a lot more rigorous. Project disciplines could bring about higher productivity and faster turnaround with no diminution of depth. But by and large we are running policy shops on what I would call an artisan model – relying heavily on individual expertise and individual professionalism and craftsmanship.^{xi}

The frustration of not being ‘in charge’ but waiting for orders from the commander is evident in the following comment about the reluctance of the current government to be actively engaged in strategic planning:

The Holy Grail for a public servant working in a central agency is to get ministers to say these are our priorities. Ministers are wary of doing that because as soon as you have a target you can miss something and to set targets politicians have to have real confidence that the bureaucratic machine will actually deliver.

The difficulties of implementation are well captured by the same manager in this analogy about what can happen to a ‘tsunami’ of change developed at the centre:

The middle managers take that aspirational goal and reinterpret it in terms of the work programme they already have. They break it down and pigeon hole it and before you know it, it’s like a wave on the beach. It just disappears into the sand – it’s gone.

This sense of frustration was well captured in the title of a classic book about public administration: *Implementation: how great expectations in Washington are dashed in Oakland* (Pressman and Wildavsky, 1973).

A period of crisis provides a staff adviser with considerable power, as occurred during the financial and political crises

of the 1980s and early 1990s. In less turbulent times, the options for action are usefully described as ‘sticks, carrots and sermons’ (Bemelmans-Videc, Rist, and Vedung, 1998). The budget process managed by the Treasury is a potential stick (and carrot, or incentive), but the logistics and administrative routines of the process effectively mean that budget decisions focus on a small number of political priorities, not a considered weighing of the performance of different agencies.

The State Services Commission holds a proven stick and carrot with its management of performance contracts for chief executives, and the Department of the Prime Minister and Cabinet has the threat of prime ministerial intervention. Officials almost always turn up to meetings called by the department, one senior manager noted.

The major current strategy for influence by the central agencies, the state sector development goals (SSC, 2007), is perhaps closer in nature to a ‘sermon’. Developed initially by the State Services Commission, the goals were revisited in 2007, and a Treasury-focused value-for-money goal has been adopted as the focal point for central agency joint action. The goals seek commitment by public servants to ‘a system of world-class professional State Services serving the government of the day and meeting the needs of New Zealanders’. ‘Transformation’ will occur with services that deliver value for money, are networked, coordinated, accessible and trusted, and attract high performing staff to an employer of choice.

Culture shifts envisaged in these goals show the unfinished work of competing values, and the extent to which the move begun 20 years ago, away from a hierarchical and internally-focused clan is still a work in progress. Perhaps the major challenge with the development goals and the transformation envisaged in Table 3 is to stop them from becoming yet another ‘Wellington “bumper sticker”’.^{xii}

Table 3: Changing the focus

From	To
Output-focused	Results-driven
Command and control	Influencing and partnering
Wellington-driven	User-driven
Vertical management	Governing through networks
Emphasising expertise	Integrating expertise
Sharp boundaries	Permeable boundaries
Arms-length relationships	Partner and co-producer relationships
Rules and regulation	Alignment on results

Conclusion

William Shakespeare wrote, ‘uneasy lies the head that wears the crown’.^{xiii} The closest advisers to the wearers of the ‘crown’ in any political system are central agencies. When the wearers of the political crown are uneasy, as has been

happening in New Zealand during 2008 with opinion polls predicting political change, central agencies tend to gain new roles and influence. Central agencies come into their own when political leaders want or need change, just as staff advisers to generals gain influence when it is clear that proposals from line organisations to redouble existing efforts provide no solution.

In retrospect, the dominance of central agencies in the period between 1984 and 1999 was unusual, a product of a generation change in New Zealand politics, with new leaders, mostly in their forties, wanting radical change from the hierarchy and clan solutions well entrenched in the public service of the era. A pendulum swing towards market and network solutions in the 1980s and 1990s has more recently been modified by political opponents of such methods. During a period of political and economic stability since 1999, the central agencies have been limited in the extent to which they could play a 'change agent' role. Central agency work has been more process-focused, more routine. To use a final military analogy, central agencies have been like soldiers in peacetime – the equivalent of chimneys in summer,^{xiv} capabilities which need to be kept in a state of readiness.

The shape of the new central agency challenge is captured in the state sector development goals, devised by the State Services Commission and adopted as a central task for all three central agencies. These seek more critical assessment of performance as viewed by citizens, greater coherence of delivery, and renewed focus on value for money. The

goals require a balance between clan, hierarchy, markets and networks. But will the devolved management model in New Zealand, a product of 1980s corporate philosophy, be sufficient? Or will cohesion require tighter coordination on issues such as technology use, pay rates for public sector employees, and human resource management practices which make it easier for government to allocate staff to new priorities? Having shed the bureaucracy-based control roles 20 years ago, central agencies and their political masters are likely to increasingly engage in debate about whether reform has left them too weak to be effective catalysts for performance improvement within a decentralised system.

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- i This is an edited version of a paper presented at the 'After the Reforms' symposium in Wellington, 28-29 February 2008, hosted by the School of Government at Victoria University. The author wishes to acknowledge financial support for this research from the Canada-based Infrastructure, Government and Health division of KPMG International. A similar article will be published as part of a KPMG series on public sector performance
 - ii Comment of a central agency senior manager, from an interview conducted for this research project
 - iii About a quarter of total public sector employees
 - iv Comment of a central agency senior manager
 - v For example, the collapse during the 1990s of Brierley Investments Ltd, a corporate raised of the 1960s which by the late 1980s had become one of the New Zealand's largest companies, using a financial control model to hold together unrelated businesses
 - vi 2006-07 estimated actuals
 - vii 2005-06 actuals
 - viii A comment made in 1943 in support of rebuilding the bombed out House of Commons exactly as it had been, with too few seats for all members, making for a crowded debating chamber
 - ix Note this SSC budget includes \$22.26 million for new responsibilities for introducing e-government infrastructure
 - x Interview with a central agency senior manager
 - xi Interview with a central agency manager
 - xii Interview with a senior manager
 - xiii *Henry 1V*, Part Two, Act III, Scene I
 - xiv William Cecil, Lord Burghley (1520–1598), adviser to Queen Elizabeth I

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A Balancing Act

Decision-Making and Representation
in New Zealand's Local Government

Jean Drage



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A BALANCING ACT

Decision Making and Representation
in New Zealand's Local Government

by Jean Drage

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