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# Editorial Note

This latest issue of *Policy Quarterly*, the third for 2007, caters for those with especially eclectic tastes in matters of public policy and management. Gary McAdam leads the way with a somewhat sceptical view of the prospects for implementation of the State Sector Development Goals 2005. He sees them as an important initiative by the State Services Commission in on-going efforts to build integrated strategic capacity in the state services, but shows that some public servants believe the goals may tell us more about the Commission's quest for a strong organisational mission than about how individual agencies might be relied upon to carry these aspirations through into their own organisational culture and ways of operating. Many of them claim that they have been doing that anyway. It's important to note that Gary's article derives from research he undertook in 2006 as part of his Master of Public Management programme at the School of Government, VUW. It's possible that if he were to conduct the research today, a year later, some of the responses he received to his questions would be somewhat different, perhaps more encouraging from the Commission's point of view.

One of the State Sector Development Goals is 'Trusted State Services'. It's appropriate therefore that Colin Hicks, who has a long-standing interest in public sector ethics, both as a practitioner and as a teacher, follows on from McAdam in raising some important questions regarding the infusion of ethical standards in the public sector. Without trying to provide a philosophical treatise on various school of ethics, Colin argues for a positive interpretation of ethical standards, to be instilled not only individually but collectively. In achieving this, he argues, instruments such as codes of conduct and integrity will be necessary but by no means sufficient.

Russell Harding was recently appointed to the staff of the School of Government, VUW, after 14 years working in state government in the United States, teaching part-time at Portland State University, and on his return to New Zealand, a period of employment with the Ministry for the Environment. In this issue, Russell discusses the various approaches that are being taken to manage agricultural water quality in New Zealand, asking whether the Fonterra Co-Operative Group's action on the ground (literally) will prove to be adequate, and to what extent it might be challenged by central government initiatives and those from other industry organisations.

The 'managing for outcomes' approach in the New Zealand Public Service continues to generate discussion in the pages of *Policy Quarterly*, as elsewhere. Here, Karen Lewis, of the University of Canterbury, looks at managing for outcomes in the Child, Youth and Family Service of the Ministry of Social Development. Karen highlights what she sees as a paradox in the move towards 'managing for outcomes', arguing that – by implication at least – it tends to shift political responsibility from ministers to departmental chief executives.

In the next article, Mike Reid of Local Government New Zealand, reflects on whether New Zealand might be able to adopt some aspects of the Sustainable Communities Bill, which was introduced into the British Parliament late last year by a private member, with the support of the Conservative Party, the Social Democrats, and some Labour MPs. If enacted, the Bill would give local communities much more say in determining the ways in which government spending in their communities is allocated and prioritised.

In the final article in this issue, Alison O'Connell suggests that despite New Zealand's good record in promoting financial education among its citizens, little is actually known about how effective such educational initiatives have been. In recognising the difficulties involved, she advocates ways to better ensure that such education is both effective and seen to be so. Against the background of public debate over superannuation options and the introduction of KiwiSaver, Alison's arguments have special topicality.

As always, there are several problematic and contentious public policy and public management issues raised in this latest edition of *Policy Quarterly*. The co-editors welcome contributions from anyone who would like to respond to the ideas and arguments presented here, and carry on debate in the pages of this journal.

**Robert Gregory**
**Co-Editor**

# Factors Influencing Departmental Responses to the Development Goals for the State Services

Gary McAdam

## Introduction

Since the mid 1990s significant effort has been put into addressing the fragmentation effects of the state sector[1] reforms of the 1980s. Several attempts[2] have been made under different governments to reduce fragmentation and ensure alignment and integration of activity across the public service and, more recently, the broader state services.[3] These efforts have increasingly sought to use non-structural means to improve collaboration and coordination. Over recent years they have had a significant focus on improving the outcomes experienced by the community and improving service delivery to citizens.

It is not clear what influences the way in which agencies in the state services respond to these centrally-driven initiatives, and, therefore, the ability of such initiatives to drive significant change in the dynamics they are aiming to affect. While such initiatives are usually driven from the centre of government, they rely on a rather dispersed set of state services agencies, each with their own focus and priorities, to implement them. The research summarised in this article looked at this issue in the context of one of the more recent centrally-driven initiatives, the Development Goals for the State Services (the goals).

1 The state sector includes: all the state services (see note 3); some departments that are not part of the state services; tertiary education institutions; offices of Parliament; and state-owned enterprises (SSC, undated).

2 Strategic Result Areas (SRAs) were defined in 1994. These were replaced by Key Government Goals in 2001. Following the Review of the Centre in 2001, departments were required to implement Managing for Outcomes (MfO), and a service-wide focus on leadership and people management issues was reasserted.

3 The state services consists of: all public service departments; other departments that are not part of the public service; all Crown entities (except tertiary education institutions); a variety of organisations included in the government's annual financial statements by virtue of being listed on the fourth schedule to the Public Finance Act; and the Reserve Bank of New Zealand (SSC, undated).

## The Development Goals for the State Services

The Development Goals for the State Services were defined by the State Services Commission and were launched with the support of the government in 2005 (SSC, 2006). They include an overall goal: 'A system of world class State Services, serving the government of the day and meeting the needs of New Zealanders', and a set of subsidiary goals (see Table 1).

**Table 1: Development Goals for the State Services**

| Goal | Description |
|---|---|
| **Goal 1** Employer of Choice | Ensure the State Services is an employer of choice attractive to high achievers with a commitment to service. |
| **Goal 2** Excellent State Servants | Develop a strong culture of constant learning in the pursuit of excellence. |
| **Goal 3** Networked State Services | Use Technology to transform the provision of services for New Zealanders. |
| **Goal 4** Coordinated State Agencies | Ensure the total contribution of government agencies is greater than the sum of its parts. |
| **Goal 5** Accessible State Services | Enhance access, responsiveness and effectiveness, and improve New Zealanders' experience of State Services. |
| **Goal 6** Trusted State Services | Strengthen trust in the State Services, and reinforce the spirit of service. |

Source: SSC, 2006, p.9

### Purpose of the goals

Publicly available documentation suggests that the goals aim to ensure that the state services effectively support New Zealand's economic and social success. It is noted by the State Services Commission that 'A well performing State Services can make a huge difference – to New Zealand's success as a country and to the people that make up our society', and that 'An effective State Services is integral to the country's economic and social performance' (SSC, 2005a, p.1).

However, other driving purposes became clear during the course of the research. The state services commissioner, Mark Prebble, noted that the goals are as much about transforming the commission as they are about transforming the state services. On a more personal level, the goals are being used to communicate the commissioner's intent for his term in office (Prebble, 2006).

While connected to past reform efforts, the goals are clearly intended to drive significant change in the way state services are delivered in the future. The goals aim to 'outline the future direction for New Zealand's State Services' (SSC, 2005b, p.1) and 'provide a framework for delivering the next generation of State Services' (SSC, 2006, p.6). They are described as moving from a reform focus to a development focus (SSC, 2005a).

Importantly, the goals are characterised by the commission as being about *how* New Zealand's state services will operate, not *what* they will achieve: 'These goals do not outline what the State Services will achieve (such as support for families), as that is a matter of government policy. Rather, the goals are aspirations for how the State Services will be arranged and perform' (SSC, 2005a, p.2).

### Context for implementation of the goals

The commission recognises that achievement of the goals requires contributions from all parts of the state services, and that this may require some change in behaviour:

> To accomplish this, we will need to work together more effectively. At times this will require us to make decisions that put the interests of the State Services above those of our individual agencies. This will necessitate a broadening of our strategic vision and of our concepts of leadership, and trust in each other's ability to lead and to deliver that vision. This collaborative approach may also present some challenges in the short term. (SSC, 2006, p.5)

## Research method

The research sought to identify the factors that have influenced the ways in which a sample of departments have responded to the goals. To do this, it explored how the goals were developed and communicated and how they are being responded to by those departments. On the basis of this information, conclusions were drawn about the nature of departmental responses to the goals, and the factors that have influenced those responses.

The research entailed:

- reviewing publicly available literature relating to the goals to determine the broad intentions and structure of the goals, and any specific expectations relating to them;
- reviewing the literature relating to corporate strategy and change management to define an appropriate framework for the analysis;
- conducting a structured interview with the state services commissioner in order to gain greater insight into the intentions behind development of the goals, the process by which they were developed, and the specific expectations of agencies in the state services;
- conducting structured interviews with informants in five public service departments to determine how they have responded, and the factors that have influenced the nature and content of their responses. Tier 2 senior managers with organisational responsibility for strategy and/or planning were selected for interview as they were considered to be in critical positions in terms of both translating their chief executives' wishes in respect of the goals into organisational reality, and providing leadership for reflecting the goals in organisational direction and strategy (interviews were undertaken during December 2006); and
- undertaking a content analysis of the information gathered, to identify factors that have influenced departmental responses to the goals.

## Framework for the research

Following a review of strategy and change management literature, eight factors were identified as being significant in the development and implementation of successful strategic change, and were therefore deemed to provide a useful framework for the research. These factors were translated into a number of propositions,

### Table 2: Propositions tested in the research

| | |
|---|---|
| Proposition 1 | There will be a clear understanding of the goals and a strong sense of shared vision amongst the departmental informants. This will be reflected in:<br>• understanding of the goals, including clarity about, and consistency of view of, the difference that is being sought;<br>• a sense that the goals are important and worthy of effort; and<br>• a sense of empowerment to pursue them. |
| Proposition 2 | There will be an evident sense of urgency amongst informants. This will be reflected in:<br>• communication of a sense of urgency to departments through the communications and actions of the central agencies; and<br>• active planning by agencies in pursuit of the goals, including planning for short-term wins. |
| Proposition 3 | Departmental informants will perceive there being strong leadership behind the goals. This will be reflected in:<br>• a strong sense of joint leadership coming from the central agencies;<br>• a strong sense of ownership and leadership in pursuit of the goals coming from their chief executives, both individually and collectively; and<br>• awareness that there are expectations of change, at a political level, in the way the state services operate. |
| Proposition 4 | Specific processes will have been developed for communicating and implementing the goals, and monitoring performance in relation to them. These will be supportive of, and integrated with, other management processes, at both service-wide and departmental levels. This will be reflected in:<br>• identifiable processes for communicating, implementing and assessing progress against the goals; and<br>• integration of these processes with existing management processes, where practicable. |
| Proposition 5 | The goals, and the actions taken in pursuit of them, will have been actively communicated across and within departments to enrol the managers and staff of those organisations in pursuit of the goals. This will be reflected in:<br>• active communication across departments, targeted at many levels; and<br>• wide communication within departments. |
| Proposition 6 | There will be clear processes for planning actions in pursuit of the goals, which provide sufficient structure to guide and motivate action but allow sufficient flexibility for departments to define the distinctive contributions they can make. This will be reflected in:<br>• existence of an implementation plan or plans, and awareness of those plans amongst departmental informants;<br>• evidence that departments had contributed to the planning;<br>• evidence of active planning within departments in pursuit of the goals. |
| Proposition 7 | There will be clear markers of the changes expected as a result of pursuit of the goals, and mechanisms to assess progress. These will be reflected in:<br>• clear milestones or indicators of expected progress or performance; and<br>• an established process for assessing progress or performance against the goals. |

reflecting desirable characteristics of a good quality process of strategic change (Table 2). The extent to which these characteristics existed in implementation of the Development Goals was tested through the interviews with departmental informants.

## Findings from interviews with departmental informants

### Clarity of direction and shared vision

Informants' responses indicated that there is a clear understanding of directions being pursued by the goals and an understanding of their importance to the future performance of New Zealand's state services. Most informants were able to identify the key drivers that led to the goals, and showed a clear understanding of the directions being pursued. However, a number of informants considered the goals to be so self-evident as to be almost passé. This must raise questions about the ability of the goals to motivate new behaviours and actions.

While all informants felt that their departments were able to pursue the goals, there was some sense that they may face constraints which will limit the extent to which they do so. This was reflected in a view that there are actual or potential cost implications in pursuing the goals, and little incentive, in terms of the way departments are funded, to pursue them beyond the point where there is sound business logic for the department. This has possible implications for the pursuit of cross-departmental initiatives, particularly where the 'value proposition' for each of the agencies is insufficient to incentivise action, notwithstanding potential benefits for the broader system as a whole.

### Sense of urgency

Feedback from informants suggested that no particular sense of urgency is felt by the departments of the informants participating in this research. The informants indicated a lack of clarity as to what is expected of their departments, and that their departments have responded by continuing to do what they were already doing, or were planning to do anyway. While they considered this to be well aligned with the goals, there was no sense from the informants that the goals and the associated milestones have inspired any rethinking of departmental plans. This approach has been reinforced by an apparent low-key approach to the goals by their key State Services Commission contacts.

### Leadership

Departmental informants saw little visible leadership in relation to the goals. Beyond the obvious leadership of the state services commissioner in developing and initially communicating the goals, departmental informants had not seen the commission demonstrating active leadership in its ongoing interactions with departments, nor had they seen evidence of joint leadership from the central agencies. Perhaps more importantly, they had not seen active leadership from their chief executives. While some chief executives had distributed communications from the commissioner, informants did not convey the impression that their chief executives had demonstrated a sense of ownership of the goals or the broader vision underpinning them.

Departmental informants did not perceive there to be a strong drive from ministers behind the goals. While most informants understood that the goals had been endorsed by Cabinet, this was seen more as a matter of form than of substance. Informants saw the goals as addressing issues that are primarily of interest to the commissioner, and have no expectation that their ministers will have any real interest in their departments' performance in relation to them.

### Enabling structures

Most informants were aware of a number of the processes used by the commission to communicate and implement the goals, but were unclear about how some of the key processes are to be used. There was a reasonable awareness of the use of chief executives' periodic meetings with the commissioner for communications to chief executives relating to the goals, and of the use of Devcon[4] for broader communication to senior managers. There was also a common expectation that the normal performance assessment process for chief executives would be used to assess the extent to which departments were contributing to the goals. However, while most informants were aware of, or had been involved in, the development of plans setting out their department's contributions to the goals, there was little sense of any specific expectations the commission had of departments' contributions, or how the plans were going to be used. Because of this, some informants had the view that the process was hastily

4 An annual conference for senior leaders in the state services, hosted by the State Services Commission.

developed or had the feel of a compliance exercise about it. While there was some variability of experience across departments, on the whole the commission's relationship processes with departments appear not to have been used effectively in support of the goals.

All informants' departments had subsumed goal-related activities within normal planning and development activities. Apart from the processes necessary to respond to the commission's request for a goal-related plan, only one informant could point to a specific process that had been put in place to internally monitor contributions to the goals. This is perhaps reflective of the fact that the goals had not led to departments reviewing existing initiatives or undertaking new initiatives.

## Communication

The goals have been widely communicated across departments, but to a relatively narrow group of people. The commission's communications had primarily been channelled through chief executives, with a reliance on them to transmit the messages more broadly within their departments. Devcon and presentations to a few departmental management teams had been used to communicate directly to the broader group of senior managers. The only communication channels with potentially wider audiences that were used were the commission's website and delivery of presentations to particular interest groups.

Communication within departments has also been limited. Senior managers in some departments were aware of, or had received a copy of, the commissioner's initial letter outlining the goals. While a number of departments referred to the goals in their statement of intent, and in related communications to staff, most did so in a way that was relevant to their own existing contributions, as opposed to setting the scene for any broader transformation of the state services.

As a consequence, departmental informants were of the view that there has been little penetration of the goals or the underlying vision through their departments. Communications were thought to have been sufficient to create awareness (as opposed to understanding) of the goals amongst senior managers, and some greater understanding amongst managers of particular functions. However, there was thought to be little awareness of the goals more broadly amongst departmental staff.

## Planning

Implementation planning undertaken by the commission appears to have had little visibility. The initial plan developed by the commissioner, in which the draft goals were first set out, was a plan for transformation of the State Services Commission (Prebble, 2005), not of the state services, and was not widely available. While more plans and reports, such as the *State of the Development Goals Report 2006* (SSC, 2006), have subsequently emerged, these do not appear to have firmly registered with the departmental informants. Furthermore, departmental informants had gained little confidence from their dealings with the commission that there was actually 'a plan', as opposed to a series of ad hoc processes.

Departmental planning in relation to the goals has been cursory. It would be an overstatement to say that departments were actually 'planning' in pursuit of the goals. Rather, they were aligning current and already planned initiatives with the goals, reflecting the view that they were already well placed in pursuing the issues the goals are seeking to advance. To this extent, they were committed to their plans. However, this has obvious limitations, and, as one informant pointed out, there is little incentive for departments to plan initiatives beyond what makes good business sense in their own context.

## Indicators of progress

The issues in this area are being addressed by the commission. The goals include clear milestones for 2007 and 2010. In addition, an initial report has been published (SSC, 2006) setting out the current situation and a framework for assessing progress against the milestones. Interestingly, while this substantial document was published some months before the interviews with departmental informants were carried out, the fact that few referred to it in their comments suggests a relatively low level of awareness of its existence.

However, the milestones may not be particularly challenging for these departments. The commissioner noted that they had consciously been set at a 'safe' level, because of the lack of consultation in their development (interview with Mark Prebble). It was clear from the comments of informants that the milestones were not challenging their departments to move beyond what they were currently doing.

## Summary of research findings

A number of factors appear to have influenced the way in which the departments in the sample covered by this research have responded to the Development Goals for the State Services:

### Understanding of the context

Departmental informants demonstrated a good understanding of the context within which the goals were developed, and the drivers for their development. They were aware of the recent history of state sector reforms and were easily able to place the key issues the goals are designed to pursue. They saw their departments as being attuned to, and having been in the process of addressing, most of these issues prior to the advent of the goals, and therefore as not needing to make additional efforts in response to the goals.

### Perceptions of the purposes of the goals

Two underlying purposes predominated in informants' thinking about the purposes of the goals. First, there was a strong view amongst informants that the goals are significantly, if not primarily, intended to provide a vehicle for the State Services Commission to develop a more relevant and sustainable role for itself. The second factor, which is related to the first, is the need for a common frame of reference for the broader state services, now that the commissioner's mandate has been extended to the state services. As neither of these purposes relate directly to departments, the goals were not seen by informants to require any special effort by their departments.

### The degree of active leadership

Departmental informants had seen little active leadership relating to the goals. They had observed a low-key approach from their State Services Commission contacts and had concluded that there is little ministerial interest in the goals. Importantly, they had not detected, amongst their chief executives, a desire to actively pursue the goals beyond what their departments were planning already.

### The degree of challenge

The goals and their related indicators were not perceived as requiring a stretch by informants' departments. Most informants were unclear as to what specifically is expected of their departments. As a result of this, and of the lack of any sense, in their dealings with commission staff, that a stretch or special effort was expected, their departments have felt comfortable that merely repackaging existing initiatives that are consistent with the goals is sufficient to fulfil any requirements of them.

## Key issues for consideration

These factors raise some issues that the commissioner may usefully consider in refreshing the goals process.

### Chief executives' leadership

One of the key challenges going forward is the need to ensure that chief executives take a visibly active role in leading activity in pursuit of the goals. If the perceptions of the departmental informants correctly reflect the broader situation, there has not been sufficient incentive for chief executives to take a proactive role in pursuit of the goals, particularly as may be necessary to advance initiatives that go beyond the direct business interests of their departments. This is likely to require both a clearer statement of what is expected of chief executives in relation to the goals, and a greater emphasis in performance discussions on their contributions towards the goals.

More active ministerial interest may also be necessary to focus chief executives' attention on the goals. Departmental chief executives face an ambiguous authorising environment,[5] in effect serving two masters: the commissioner and their minister(s). Because of this, their preparedness to actively pursue the goals beyond the point at which it makes sense from a purely internal departmental perspective will, to a significant degree, be determined by the consistency of signals from both their ministers and the commissioner that they should do so. While the goals are about how the state services operate, and in many respects transcend governments, this is intimately linked with what the state services are able to deliver, and therefore should be of interest to ministers. Ministerial support has particular significance for the desire to move to more 'joined-up' service delivery, as in many cases this will require ministerial backing, if not active ministerial leadership.

5 Moore (1995, p.119) notes that the most important figures in the authorising environments of public managers are those who 'appoint them to their offices, establish the terms of their accountability, and supply them with resources'.

### Strategic stretch

More demanding expectations and accountability are required to incentivise chief executives into action that goes beyond their own departments' direct interests. It is clear from departmental informants' feedback that while their departments are pursuing initiatives that comfortably align with the goals, they are not being stretched by the current expectations of them. A more demanding set of expectations may be necessary to encourage chief executives to move beyond this and proactively pursue initiatives that are driven from a broader perspective.

### Breadth of engagement

More active engagement with senior managers in the state services will be required if they are to be enrolled in pursuit of the goals. While chief executives provide overall departmental leadership, senior managers, particularly those with strategy and planning responsibilities, are essential to ensuring that the goals are institutionalised in the strategies and plans of their departments and agencies. More active engagement with these managers on the directions, plans and expectations of departments will be essential if departmental responses are to be moved from relatively passive 'retrofitting' exercises to more active planning in pursuit of the goals. It could also be used to broaden the 'guiding coalition' for the goals to the second-tier management of departments and agencies.

### Clarity of plans and expectations

The commission needs to be more consistent and well-organised in its own interactions with departments and agencies if it is to effectively engage state services managers around the goals. Any perceived lack of coherence in the way the commission rolls out goal-related activities, and any lack of clarity about the commission's expectations, will only serve to reinforce underlying cynicism about both the purpose of the goals and the commission's ability to provide effective leadership. Clarity and consistency of message, through both formal and informal communications, and a clear sense of 'the plan' and the expectations that go with it are necessary to provide confidence that this is a well-planned and sustainable process.

## Conclusion

If the goals are to bring about 'A system of world class State Services' they will require a rather more active approach than has been evident from the information gathered in this research. While informant perceptions indicate that departments are pursuing initiatives that are consistent with the goals, they have been driven by their own best interests, rather than by consideration of what is in the best interests of the state services more broadly. This may be a necessary first step, but is unlikely to be sufficient to achieve the aspirations encompassed in the goals.

However, it is clear from discussion with the state services commissioner that most of the issues identified in the research were not unexpected. The commissioner was aware of a number of areas that required further work, and is currently 'refreshing' the milestones and process, taking on board learnings from the process to date.

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**Gary McAdam has been a public servant for more than 30 years, and is currently Manager of Strategy and Planning for the New Zealand Customs Service. Prior to joining Customs he was with the State Services Commission for 15 years. A graduate of Massey University, Gary undertook the research on which this article is based whilst completing a Master of Public Management degree at the School of Government, VUW. His email address is: gary.mcadam@paradise.net.nz.**

# A Case for Public Sector Ethics

Colin Hicks

> If some do not take ethics seriously, it is an indictment of them, not ethics; like conscience, the more it is demeaned, the more it protrudes.
>
> **Bowman, 1996**

In June 2007, as part of the achievement of its development goals, the State Services Commission (SSC) published a revised code of conduct (SSC, 2007a) to apply to most state service employees. The code is about 'standards of integrity and conduct' – essentially, to be fair, impartial, responsible and trustworthy. The initiatives of the SSC in recent times are to be commended, but do they go far enough?

In the context of contemporary New Zealand state sector management and administration, words like integrity and values, or responsibility, are more likely to be used than the term ethics. Almost no reference to normative or prescriptive ethics, or professional ethics, is made in official publications. The language of ethics is all but ignored.

An apparent absence of ethical and moral theory to inform and enrich public management is puzzling in the light of a growing public sector ethics literature, and a coincidental 'confidence gap' with respect to the attitude of citizens towards public institutions. In other developed countries with similar forms of government there has been considerably more emphasis on ethics education and training and on integrating ethics into public management than is evident in New Zealand.

Governmental organisations in New Zealand ought to review their collective approach and reassess the place of public sector ethics in the scheme of public administration. Indeed, they ought to adopt a rich definition of public sector ethics to take account of how state organisations relate to their stakeholders, and how state organisations account for the public interest in their objects and missions. A rich definition might well encompass how organisations are managed, too. In making this plea I am not implying there was a time in the past in government service here when it was any different, or that ethical and moral theory of whatever persuasion was more evident than now.

My intent here is not to promote a particular moral theory or interpretation of public sector ethics. Rather, I firmly believe that ethical theory can help officials in their practical activity, and administrative tasks. I take the view that theory provides us with a framework to make reasoned, informed and systematic judgments and critical decision making. Knowledge and understanding (of ethical theory) are important in that process. Being ethical in government service is not an end in itself – merely a means to the end of promoting and enhancing public trust and confidence, and efficient and effective government administration.

In layman's terms, ethics is about how we ought to behave, or doing the right thing. For public officials that means how to behave in a particular role, and how to live up to the expectations of others – colleagues, employers, politicians, citizens, users of public services, and so forth. To discern what constitutes an ethical decision or action requires a degree of reasoning to make choices not just between right and wrong, or good or bad, or just and unjust, but between right and *most* right, or ethical and *most* ethical. The exercise of discretion in these matters cannot be determined just by reference to a code of conduct or accompanying guidance material, as important as those minimum standards may be in the scheme of things. The reasoning processes and instincts are informed by experience and knowledge acquired through the practice of public management and the internalisation of fundamental public sector values applying to all agencies of the state. The reasoning processes are also informed by a good knowledge and understanding of ethical theory and practice as it applies to public office and the administrative sphere of government.

Establishing boundaries of good conduct is important in any institution, but a definition of ethics in the context of government should not leave any doubt that it means more than avoiding the use of public office for personal gain or benefit. The meaning should lean more in the direction of actively promoting public benefit – towards a very high standard of justice (goods promoted) rather than towards a modest but more manageable standard of integrity (harms avoided) (Uhr, 2005, p.39).

An onus to demonstrate a substantial public good goes to the heart of understanding public sector ethics. A substantial public good is best achieved through the maintenance of well-articulated and explicit ethical standards that go beyond the expected minima. These standards need to be understood in the light of the nature of public service obligation and those fundamental values or common beliefs that may define professional ethics in that context. The pertinent values have been distilled as honour (the highest standards of responsibility, integrity and principle), justice (fairness and regard for the rights of others, especially respect for the dignity and worth of individuals) and benevolence (the other-regarding essence of public service – a disposition to do good and to promote the welfare of others) (Denhardt, 1990). Those same values applying to individual behaviour need to also apply to the way organisations in the state sector behave. Recent publicity given to electricity supply authorities illustrates how important it is for these organisations to express public good values in all they do. That means 'going the extra mile', and doing what *ought* to be done rather than what *can* be done, consistent with ethical values and standards.

Not doing harm is not the same as doing good. Being ethical is not achieved only by following the rule of law, or, indeed, a code of conduct. An absence of unethical conduct is not a sufficient test of whether a state sector agency is fully ethical or not. Too often, when the topic of ethics is discussed it is in the context of breaches of conventions or proscriptive codes, or even illegal conduct, and therefore focuses on where these minimum boundaries should be drawn. In my view this is not the best starting point to understand public sector ethics. It seems preferable to accentuate the positive, affirm whose interests ought to be promoted and enhanced, and stimulate discussion of how public servants can raise their ethical performance well above the expected minimum standards.

The first written code of conduct was issued by the State Services Commission in 1989, under Don Hunn's stewardship. He recognised the need to codify and reiterate what he believed to be the constants governing behaviour of public officials in a reformed state sector. Hunn stated publicly his view that there was a need to go beyond the code and to provide guidance in respect of the 'administrative behaviour' of public servants (Martin, 1991, p1). A few years later a comprehensive guidance series was published to provide, in a consolidated and accessible form, reference to appropriate standards and values to guide the responsible official in all aspects of his or her work (SSC, 1995). In short, the papers amounted to a reference resource of public sector ethics standards and values. (These papers survive in the archive section of the SSC's website.)

In November 2000, in response to a growing public (and political) disquiet, the minister of state services established the State Sector Standards Board (SSSB) to be assured of an ethical, public-serving state sector and to provide the basis for government to set out its expectations of the state sector in a clear and concise statement of values. Two years later the SSSB, having produced a variety of reports on the broad issue of state sector standards in the interim, said,

> There do not appear to have been any significant developments in the ethos of the State Sector since the Board's last report. Concerns about the ethical and managerial standards of organisations in the State Sector preceded the establishment of this Board and, in the words of the State Services Commissioner, 'cast a shadow' over public organisations. Regrettably, instances of inappropriate behaviour continue to come to light and underline our observation in last year's report that there is 'a need to be vigilant, in terms of behavioural standards, effective systems, and commitment by leadership'. (SSSB, 2002)

In 2005 the State Services Commission published a set of six broad 'aspirations' or goals to be achieved over a five-year period to contribute to an overall goal of developing 'a system of world class professional state services serving the government of the day and the needs of New Zealanders' (SSC, 2005). One of the goals is to 'strengthen trust in the state services and reinforce the spirit of service'. Progress towards achievement of the goals was monitored most recently in May 2007. A key finding is that only a small majority of adult New Zealanders express trust in public services (Colmar Brunton, 2007, p.3). Putting aside any scepticism about the accuracy of such surveys, it appears that the State Services Commission will have to do much more for significant improvement than planned to date.

The SSC initiatives in recent times have all been aimed at: improving services; meeting citizen's expectations; and building trust. The key drivers of satisfaction with, and trust in, state services have been identified, and benchmarks set. A revised code of conduct to apply to most of the state services has been issued (SSC, 2007a), and guidance material published (SSC, 2007b). In all this effort only two references to ethics have been made: with respect to possible conflicts with professional ethics (legal, accounting, etc.), and with reference to the work of ethics committees (such as research, and bio-ethics). This may not be significant of itself, but this omission suggests that these days a profession of statecraft (Martin, 1988) is not explicitly recognised. Or, it could mean a debate is still to be had about the nature of government and the 'good society', and the nature and purpose of public service.

It is not peculiar to New Zealand that we have experienced a heightened perception of dubious or unethical conduct in public life this century. When things go wrong the facts and fallacies tend to be exposed more readily and for longer periods than in the past. Appearance of wrongdoing is as damaging to reputation and image as any substantiated transgression. These phenomena reinforce a propensity for public officials to be extremely risk averse – to create more rules (of what not to do), and more codes (of minimal standards). Inevitably, the result is more compliance with tighter accountability mechanisms, and perhaps a preoccupation with toeing the line, which diverts attention from the practice of statecraft.

An obsession with accountability will most certainly affect professional pride and integrity, and may even be counter-productive. The same may be said of rule-setting, particularly if the standards are set and assessed internally, leaving those on the 'outside' no real basis on which to judge for themselves the merits or otherwise of a particular case. The on-going story involving the Ministry for the Environment may be one in point. The principal actors in the affair – the minister, the chief executive and the state services commissioner – seemed at pains to act on the basis of appearance, or their conduct was somehow moderated by public relations considerations. That is, they seemed determined to provide only so much information to assuage news media and political appetites for a good story, or to gain political advantage. In this case, public officials should have been more publicly forthcoming, indeed more ethical and more accountable. If terms like openness, transparency and truth are to have real meaning they need to be expressed to the full, so that others may judge the actions of those in positions of public trust and responsibility. (In this case, a person was appointed to a senior communications position in the Ministry for the Environment, but was soon required to leave the job after the chief executive learned of the appointee's personal relationship with an employee in the office of the leader of the opposition. It was said by the state services commissioner that the offer of employment was withdrawn because the appointee had an unmanageable conflict of interest. Later, it was revealed that the minister for the environment had expressed some concerns over the appointment. Although the case may have involved an apparent or real conflict of interest on the part of the appointee, the prime minister accepted her minister's resignation when it became evident that he had not been wholly truthful in his public explanations with respect to his involvement in the controversy. At the time of writing, the State Services Commission is about to carry out an investigation into the affair.)

It can be expected (it may even be a healthy sign) that citizens are naturally hesitant to trust governments. Uhr (2005) suggests there is probably no good reason why citizens should take on trust what public sector organisations say about their integrity, or how accountable they are, when the standards are set within the state sector and self-regulated in the main. It is possible that the standards are not high enough or do not reflect the reasonable expectations of citizens; or that there are not common definitions of such phrases as conflicts of interest, or words like accountability, and responsibility.

For example, I believe accountability means more than mere reporting. Accountability in the context of government is the obligation to demonstrate continued official trustworthiness through justification of performance in a position of responsibility. In an ethical sense it also means explaining, and if necessary providing answers for, official actions or decisions (or inactions and indecisions, too). Such justification needs to reflect the fundamental ethical values of public service. It is ironic that the case referred to above followed hard on the heels of the promulgation of a state sector code of conduct promoting the values of fairness, impartiality, responsibility and trustworthiness. We are all left to wonder what motivated the withdrawal of the appointee's offer of employment, and whether we can trust those in positions of responsibility to do the right thing.

While it is true that most of us think about ethics in the context of individual behaviour, there is value in considering ethical standards for organisations, too. How organisations behave and give expression to their values, and to their nature and purpose, will undoubtedly affect the conduct of employees and the image of the organisation. Many state sector agencies have developed high-level statements of purpose and values, and these should ideally permeate and direct everything that is done in the name of the entity. For instance, there should be a consistency in the way the organisation operates its 'customer service' standards and its employee relations. Performance management systems should recognise and reward high ethical conduct in the same manner as high productivity or efficiency. The drivers should be the fundamental ethical values of public service.

Most of us understand what constitutes personal integrity, and we recognise varying degrees of professional integrity. We may assume that organisational integrity is a reflection of an agency's reputation for delivering on its promises and being true to its stated values and ideals in everything it does. Such a status, however, is not sustained in the absence of good governance and management. A reputation is not usually a product of chance, or piecemeal attention, or even the personal conduct of individual employees. Organisational integrity is not the sum of individual or professional integrity in a particular entity.

In the light of falling public confidence it is time to focus even more attention on the ownership dimension of the businesses of government. The ownership interest forms the bridge between good management practices and public-regarding behaviour and gives substance to the special characteristics of state sector organisations (Hicks and Scanlon, 1998). In this regard an ethics framework is just as important for maintaining and promoting organisational integrity as it is for understanding and managing people in organisations, or processes. When integrity is questioned in state sector organisations the focus of inquiry is more on individual than institutional conduct, and more on the operations than the governance level of responsibility. I believe the focus needs to be widened.

It is not so long ago that the term 'systemic failure' was current. We now understand a lot more about what tragic effects squeezing out apparent inefficiencies can have, and how inappropriate cultures can develop in publicly-owned institutions. Lessons learned from Cave Creek might apply equally well to our understanding and management of organisational integrity to avoid the possibility of what might be termed 'systemic ethical failure'. Whereas one failure has to do with *what* is done (or not), the other is very much concerned with a crucial element of performance – *how* things are done. In government the *how* is as important as the *what*, even more so.

For the sake of public trust and confidence, and good governance, a fuller and richer understanding of ethics needs to be appreciated. The practice of government and government business is a qualitatively different exercise from the private sector, and the distinction needs to be recognised when considering what constitutes ethical practice (Bishop and Preston, 2000). In my view the contemporary approach looks more like a clip-on, confined largely to a code of minimal conduct. The place of ethics and ethical theory in the scheme of things needs to be integral to good public management and administration, and applied systematically. Ethics may not be a panacea for the apparent 'confidence gap' in state sector services, but it certainly deserves more honest and objective attention than it appears to receive at present.

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**Colin Hicks is a former public servant of long standing, who held positions of responsibility in the former Department of Justice, and in the State Services Commission. Until recently he was a course co-ordinator in public sector ethics for the Master of Public Management programme at the School of Government, VUW. His email address is: Colin.Hicks@xtra.co.nz**

# Muddying the Waters: managing agricultural water quality in New Zealand

Russell Harding

Nā wai i tara ai te wai?

*Who disturbed the water?*

## Introduction

Despite heightened public opinion over a number of years, considerable expenditure of money and concerted effort, freshwater pollution continues to be a public problem in New Zealand. For many years New Zealanders seem to have believed that they were immune from this, confident in their 'clean green' image, and that rain and snow melt flush unwanted substances and organisms out of lakes and rivers. New Zealand's 'clean green' image continues to work well as a marketing slogan for New Zealand products internationally, but is often belied by conditions in the environment.

Over the past four years there has been a flurry of initiatives to address water quality in agricultural areas. The first down the race was the Dairying and Clean Streams Accord between Fonterra Co-operative Group, regional councils, the minister for the environment and the minister of agriculture. Commenced in 1999, the accord was signed on 26 May 2003. Next came central government's *Sustainable Development for New Zealand: programme of action*. This document, released in January 2003, identified four issues requiring action, one of which was water quality. This has been assigned to second place because, while it was released in January 2003, much of the detail of what was to become the Water Programme of Action was not worked out until 2004 and 2005. Indeed, parts of it continue to evolve today. Finally, in March 2006 Dairy Insight's *Dairy Industry Strategy for Sustainable Environmental Management* was released.

This article examines the approach each of these takes to addressing water quality in agricultural areas. It also examines the relationship between them. While each initiative has been developed in full knowledge of its chronological antecedents, each is, in many respects, an independent initiative. None alone provides a comprehensive approach to managing water quality, yet all three together fall short of an integrated approach. On one hand, the accord focuses on specific actions on the ground, with performance targets, whereas the other two take a broader, strategic planning approach. None establishes water quality standards designed to support water uses. One prescribes actions in the absence of a water quality attainment standard; the other two describe a framework, leaving both actions and standards to emerge as a result of a government and stakeholder planning process. Taken together, the ground-up action approach and the planning process top-down approach fall short of meeting in the middle. The development of these three initiatives seems to have been driven more by a desire to control a public issue than to achieve clean water. Despite this, it is notable that three influential organisations are involved in this issue. Their involvement is necessary for water quality to improve, but it may not be sufficient.

## Green but not so clean

On 26 May 2003 the Dairying and Clean Streams Accord was signed by the chair of Fonterra Co-operative Group, the chair of the regional affairs committee of Local Government New Zealand, representing 12 regional councils, the minister for the environment and the minister of agriculture. The accord was an industry-led and initiated voluntary approach to water quality in dairy farming areas.

Its genesis, however, was not nearly as altruistic. In 1999 Tourism New Zealand released its global marketing campaign designed to entice tourists to 'one hundred per cent pure New Zealand'. In 2001, news programmes on television showed images of cows trampling stream banks and defecating in streams, in stark contrast to the tourist campaign. Farmers (through Federated Farmers) and environmentalists (largely through the efforts of the New Zealand Fish and Game Council) took opposing positions in response to the images. Through a media campaign the New Zealand Fish and Game Council challenged farmers to address 'dirty dairying', a catch-phrase for a campaign to clean up fouled waterways (ANZSOG, 2004, p.3).

If the relationship between the New Zealand Fish and Game Council and Federated Farmers was contentious, nor were things entirely harmonious within government. The Waikato Regional Council, known as Environment Waikato, with Lake Taupo and the Waikato River and 22% of the national dairy herd within its boundary, characterised the relationship with the Ministry for the Environment (MfE) as follows:

> Farmers distrust them (MfE). The regional councils don't think MfE needs to be there, MfE doesn't think the regional councils are doing what they are supposed to do. MfE has the ability to bring in national standards which override the regional councils' processes for making rules. So if MfE brings in national standards, the regional councils have got to monitor and make farmers or their constituents meet them. Regional councils don't like that. They would prefer to do it their own way through their own processes. (ANZSOG, 2004, p.5)

A hint of what is meant by following their own processes and doing things their own way was given with the comment:

> The power of voluntary commitment, particularly when you are dealing with the agriculture sector, is huge. If you get people to be part of the solution, you get momentum, enthusiasm, resources poured into something they voluntarily support. If you tell a farmer what to do, [you will get resistance]. [Brackets in original] (ANZSOG, 2004, p.4)

The eventual accord grew from initial discussions between the chief executives of Environment Waikato and Fonterra Co-operative Group. Drafting of the accord was, however, not a democratic process. Those involved in drafting the accord were representatives from the Ministry for the Environment, the Ministry of Agriculture and Forestry, Fonterra Co-operative Group and Environment Waikato. Federated Farmers and the New Zealand Fish and Game Council were actively excluded from the discussions. Not surprisingly, much criticism surrounded the perceived secrecy of the discussions. Federated Farmers characterised the agreement as Fonterra using its monopoly to impose conditions on its suppliers. The ACT political party claimed that the New Zealand Fish and Game Council had always been involved and that the agreement represented its position (ANZSOG, 2004a, p.2).

The accord itself is a brief, five-page document. It admits immediately that dairy farming has an impact on water quality, and envisages an industry-led regime to address these impacts. It is a voluntary, non-legally binding agreement. The goal of the accord is that:

> Fonterra Co-operative Group, regional councils and unitary authorities, the Ministry for the Environment, and the Ministry of Agriculture and Forestry will work together to achieve clean healthy water, including streams, rivers, lakes, ground water and wetlands, in dairying areas. (Fonterra Co-operative Group et al., 2003, p.1)

The specific goal to be achieved is water that is suitable, where appropriate, for fish, stock drinking and swimming in areas designated by regional councils. The words 'where appropriate' are important. They imply places where water suitable for fish, swimming and stock watering may not be appropriate, and where this standard will not be provided. Clean and green may apply only to some areas, not all.

The accord lists a number of principles. These fall into two categories: principles governing the types of action that may be undertaken, and principles surrounding the interactions between the parties. Further discussion on the former appears below. On the relationship side, there is the almost obligatory principle of co-operation and mutual assistance to achieve the purposes of the accord, including encouragement of 'a strategic, cohesive partnership approach'. The last principle listed may be the most important for Fonterra, namely, acknowledgement of 'the lead role of the dairy industry in the Accord' (Fonterra Co-operative Group et al., 2003, p.2).

The final principle signals a clear shift in leadership from central government to the industry, and particularly to Fonterra Co-operative Group. If it had stopped at this point, the accord would have been little more than an attempt by the dairy industry to wrest control of water quality in dairy farming areas from central government. This feature of the accord, particularly, must have alarmed the New Zealand Fish and Game Council, as it saw water quality in dairy farming areas being transferred from central government with its coercive, regulation-making power to a voluntary, industry-led initiative. It is this that led the chair of the New Zealand Fish and Game Council to comment:

> New Zealand's 'clean and green' image will remain a sham if the wimpy document we were shown turns out to be the real thing signed in Parliament tomorrow night. (ANZSOG, 2004, p.15)

The accord continues, however, with a series of priority actions and performance targets. These are:

- Dairy cattle are excluded from 50% of streams, rivers and lakes and their banks by 2007, and 90% by 2012.
- Where stock cross a watercourse more than twice a week, 50% of crossing points have bridges or culverts by 2007, and 90% by 2012.
- Farm dairy effluent is appropriately treated and discharged. All farm dairy effluent discharges to comply with resource consents and regional plans immediately.
- Nutrients are managed effectively to minimise losses to ground and surface waters. All dairy farms to have in place systems to manage nutrient inputs and outputs by 2007.
- Existing regionally significant or important wetlands (as defined by regional councils) are fenced and their natural water regimes are protected. The performance target is 50% of regionally significant wetlands to be fenced by 2005, and 90% by 2007.
- Fonterra and regional councils develop regional action plans for the main dairying regions to implement the accord by June 2004. (Fonterra Co-operative Group et al., 2003, pp.2-3)

The first action above has three modifiers that accompany it. These are:

a) Fencing may not be required where natural barriers prevent stock access.

b) The type of fencing will depend on factors such as terrain, stock type and costs.

c) Streams are defined as deeper than a 'Red Band' (ankle depth) and 'wider than a stride', and permanently flowing.

These are consistent with principles spelled out in the accord, namely that measures must be 'cost effective', 'practical to implement in the context of existing farming operations', and 'clearly recognise the practical and financial constraints to implementation timeframes' (Fonterra Co-operative Group et al., 2003, p.2).

No matter the water quality outcomes from the accord, these principles address an important principle from the dairy industry's viewpoint, namely, the principle of commensuration. Two items are commensurable if they are able to be specified in the same units. For example, being able to compare a hydroelectric dam with the needs of migrating fish and recreational uses requires that each of these three be able to be specified in common terms. The most common unit used is monetary; hence the cost-benefit equation. If the dam, fish and recreation can be specified in terms of dollars produced (from electricity generated, fishing outfitters and charter operators, and kayaking and aesthetics), then a calculation can be made of the most 'efficient' use of a waterway. For some environmental advocates, by contrast, the environment is incommensurable, i.e. it cannot be translated into other units to enable it to be compared with something else. They argue that the values inherent in the environment are so unique and of such high standing that they cannot, and ought not to, be traded off against other values. For Fonterra Co-operative Group it was important to establish the principle that water quality and practical farming had to be able to be directly compared in order to determine an appropriate course of action.

The New Zealand Fish and Game Council's characterisation of the accord as 'wimpy' underlines the council's view that the accord does not come close to addressing the incommensurable set of values enshrined in clean water. The council's chair was particularly critical of the ultimate 90% targets, focusing instead on the 10% 'worst pollution offenders' (ANZSOG, 2004, p.15). The council may have been worried that commensuration would always lead to the environment being the value that is traded away in favour of affordability or practicability, or on the grounds of inappropriateness of a location for suitable water quality for fish, swimming or stock watering.

The accord concluded by describing the roles of the participants. The focus of regional councils will be working with Fonterra Co-operative Group to develop regional action plans for dairying regions. The purpose of these plans, which are not legally binding, is to identify local commitments of Fonterra Co-operative Group and regional councils. In part they modify the accord by providing for amended regional time-bound targets for the priority actions. They are also designed to identify regionally important resources, such as wetlands and water bodies suitable for swimming, detailing how the councils and Fonterra Co-operative Group will work together, a statement on the compliance and monitoring roles of Fonterra Co-operative Group and the councils, and a protocol for reporting on and reviewing the action plans. The plans could also be used to amend regional plans under the Resource Management Act and to capture commitments from other parties, such as Federated Farmers or the New Zealand Fish and Game Council.

Fonterra Co-operative Group's role is largely that of providing information, promoting best practices, developing an assessment scheme to ensure targets are met, continuing to develop a market-based approach to farm environmental management, and reporting publicly on progress. Perhaps the item with the greatest leverage is Fonterra Co-operative Group's ability to establish arrangements with its supplying farmers to ensure the accord's priority targets are met. In this regard it has usurped government's regulatory role.

The ministries for the Environment and of Agriculture and Forestry are relegated to publicly supporting the accord, monitoring overall progress, developing tools to support achievement of the targets, identifying institutional and legislative barriers, and working with councils and Fonterra Co-operative Group on science and research needs for the accord.

The accord captured three main beliefs for the dairy industry:

- industry leadership;
- voluntary actions; and
- considering water quality as one of a number of competing issues.

Three progress reports on the results of the accord have now been produced, covering 2003/04, 2004/05 and 2005/06. These results are contained in Table 1.

**Table 1: Progress towards accord targets 2003–2006**

| Accord Target | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|
| Dairy cattle excluded from streams, rivers and lakes | 67% | 72% | 75% |
| Regular race crossings have bridges or culverts | 92% | 93% | 93% |
| Dairy effluent is appropriately treated and discharged | n/a | Average compliance level of 67% nationally | |
| Nutrients are managed | 17% | 19% | 33% |

Source: 'The Dairying and Clean Streams Accord: snapshot of progress – 2005/2006', p.2, accessed from http://www.mfe.govt.nz/publications/land/dairying-clean-streams-accord-snapshot-mar07/dairying-clean-steams-accord-snapshot-mar07.pdf, 16 July 2007.

While percentages of cows excluded from waterways has shown continued improvement, the numbers of cows entering waterbodies could nonetheless increase based on herd size. It should be noted that nationally the number of dairy cows has remained relatively stable over the past five years at around 5.1 million animals.

## Sustainable water programme of action

At the time the above accord was being negotiated, the ministry for the environment had commenced work on a national standard and regulatory regime that could be imposed on farmers country-wide. This was subsequently folded into the government's *Sustainable Development for New Zealand: programme of action*, released in January 2003. Marian Hobbs, then minister for the environment and minister with responsibility for urban affairs, stated that '[t]he government has a key leadership role of articulating outcomes and directions for New Zealand' (Department of Prime Minister and Cabinet, 2003, p.5). This is an important, if tautologous, assertion in light of the dairy industry's assertion of leadership in water quality. This programme had four separate elements, one of which was freshwater quality and allocation. The government established an overarching goal of '[a]dequate, clean freshwater available for all', and an outcome related to water quality of 'freshwater quality maintained to meet all appropriate uses' (Department of Prime Minister and Cabinet, 2003, p.13).

The use of the words 'adequate' and 'appropriate' here obscures the relationship between water quality and other factors that may be weighed against it. Where Fonterra Co-operative Group wished water quality to be completely commensurable with financial and farming operations, the government seems to be hedging its bets.

In commenting specifically on the second outcome, the document noted that:

> New Zealand has made significant progress in reducing direct discharges of human and agricultural sewage and industrial waste into our waterways, although the quality of some water bodies remains poor. In particular, the quality of many lowland streams, lakes, ground waters and wetlands in areas of intensive land use continue to fall below acceptable standards. Water abstraction, urban and industrial uses, intensive farming activities, rapid urban growth, discharges, and diffuse runoff into waterways and groundwater, all contribute to reduced water quality. The main issue is diffuse discharges, such as urban and agricultural runoff. But reducing these types of discharges is often difficult and complex. (Department of Prime Minister and Cabinet, 2003, p.14)

The Water Programme of Action is to be managed under the Resource Management Act 1991. The stated aim of the act is to promote the sustainable management of land, sea, air and water in New Zealand. The role of central government under the Resource Management Act is promulgating national policy statements, establishing national environmental (water quality) standards, commenting on councils' plans, and having the governor-general issue water conservation orders to protect waters with high intrinsic values. Water conservation orders allow waters to be used, but protects environmental values as paramount.

Day-to-day administration of the act resides with local and regional councils. The means by which the act is administered is largely through a planning process. Regional policy statements are compiled, followed by regional and district plans. These are developed through a public process, and permits (resource consents) are issued for allowed activities. Local government is responsible for making decisions on the allocation and use of water within its area. Councils determine social, economic, environmental and cultural outcomes relating to water quality for their communities. Operationally, regional councils develop regional policy statements and regional plans. Councils may use these plans to set water quality standards and to manage land use activities that affect water quality. Councils are expressly required to authorise discharges into water, and do this through either rules in the plan or conditions in resource consents.

In November 2004, Cabinet approved the release of a discussion document entitled *Freshwater for a Sustainable Future: issues and options*. The paper characterised the current state of freshwater management, described a future management regime, and sought public comments. A series of 'Action Items' was listed. The items relating to water quality included:

- Develop national policy statements.
- Develop national environmental standards.
- Address nationally important values.
- Develop market mechanisms to manage diffuse discharges. This includes transferable discharge permits.

Following receipt of public submissions on the discussion document, six broad goals were reported as having arisen from the public consultation. These were:

- achieve greater strategic planning for water at national and regional levels;
- provide clearer direction and guidance from central government;
- ensure greater consistency in the way increasing demands on water are managed across the country;
- develop a better framework for deciding between conflicting demands for water;
- enable increased effectiveness of Māori participation in water management; and
- provide for more effective management of the impacts of diffuse or unintended discharges on water quality.

Three national outcomes for freshwater were specified. These were:

- improve the quality and efficient use of freshwater by building and enhancing partnerships with local government, industry, Māori, science agencies and providers, and rural and urban communities;
- improve the management of the undesirable effects of land use on water quality through increased national direction and partnerships with communities and resource users; and
- provide for increasing demands on water resources and encourage efficient water management through national direction, working with local government on options for supporting and enhancing local decision making, and developing best practice.

The specific actions included establishing a 'leadership group' with diverse membership to advise the minister for the environment and minister of agriculture and forestry on priorities for water management; to provide national direction on a number of issues related to water demand and measurement; to identify water catchments that are 'sensitive' and 'at risk' from urban and rural diffuse discharges and establish criteria to determine nationally outstanding water bodies; and to provide 'tools' to assist regional councils to perform their role in water management. In terms of water quality, the two ministries were to report back by 28 March 2007 'on the potential and options for a national Policy Statement on nutrients and microbial contaminants, and sediment'. In that report back, the following recommendation was made:

6. Agree that the Minister of Agriculture and Forestry and the Minister for the Environment report to Cabinet by 28 March 2007 on either:
   a. one draft National Policy Statement on the management of freshwater to assist in meeting the water demands and water quality objectives of the Programme or
   b. a draft National Policy Statement for managing increasing demands for water; and the potential value of and options for a National Policy Statement on nutrients, microbial contaminants and sediment as directed [Cab Min (06) 11/11 refers];
7. Agree that if Recommendation 6a. is preferred, to rescind the decision in [Cab Min (06) 11/11] that the Minister of Agriculture and Forestry and the Minister for the Environment report to Cabinet by 28 March 2007 on a draft National Policy Statement for managing increasing demands for water; and the potential value of and options for a National Policy Statement on nutrients, microbial contaminants and sediment.

Ultimately, Cabinet agreed that the ministers report on a single draft national policy statement only, on the management of freshwater for both quantity (allocation) and quality. With a pun entirely intended, the water quality aspect of the Water Programme of Action seems to have watered down the initial effort towards a national water quality standard.

Unable to assert a leadership role in the face of the practical Clean Streams Accord, central government seems to be taking the approach that if the dairy sector is folded in with a number of other sectors, perhaps its influence and the impact of the accord can be watered down.

Māori involvement with water has focused largely on quantity, allocation and ownership. In this regard, central government's Water Programme of Action has been described as:

An attempt to provide a national strategy to improve management and determine how to fairly use, protect and preserve water. But it is a ponderous process and could be too little too late. (Hipkins, 2006, p.14)

## Sustainable environmental management

In March 2006 Dairy Insight, a dairy farmer-owned research and education organisation, produced a report entitled *Dairy Industry Strategy for Sustainable Environmental Management*. This is a high-level strategic document that identifies three outcome areas:

- leadership and engagement;
- action; and
- research.

A brochure released in conjunction with this publication contained a number of questions with answers. A natural question is: what is the relationship between this document and the accord? The answer provided in the brochure is:

> Isn't the Clean Streams Accord doing this already?
>
> Monitoring undertaken as a result of the Accord has shown that huge advances in managing riparian strips and waterway access have been made. The strategy aims to build on this work in a broader sense with a focus on target catchments. (Dairy Insight, 2006)

Dairy Insight appears to be trying to assert itself environmentally by supplanting Fonterra Co-operative Group's accord with its own strategy, and by trying to incorporate the accord into a wider 'strategic' framework. It will be interesting to watch these three initiatives as they unfold over time. It is unlikely that those who have championed the, at times, arcane issue of water quality ever envisioned that organisations would compete over the right to be the one that champions the cause.

Central government's rejoinder was published in April 2006. Entitled *Freshwater for the Future: a supporting document*, the paper lays out a further series of actions. Of particular note under 'Action 1.3: Build partnerships with industry sectors', is the following:

> 19. Central government will seek to strengthen partnerships with industry by:
>
> - Building on initiatives such as the Dairying and Clean Streams Accord and the proposed Dairy Industry Strategy for Sustainable Environmental Management (Ministry for the Environment, 2006b, p.5)

While it appears that the ministry is being even-handed in its approach to the two industry initiatives, at 'Action 2.3: Provide targeted assistance to land users', only Dairy Insight's *Dairy Industry Strategy for Sustainable Environmental Management* is cited (Ministry for the Environment, 2006b, p.9). Targeted assistance usually refers to money, and there are few more decisive resources for asserting influence.

Where the ministry is hedging its bets is back where it started, on the outcome of a national policy statement on nutrients, microbial contaminants and sediment on water bodies. A national policy statement would have to be incorporated into regional plans under the Resource Management Act. While not as stringent as a national standard, a policy statement helps to reassert the incommensurability of the environment. It requires that a national policy be incorporated into regional plans, without local discussion. It loses some of its force in that the Resource Management Act itself is a vehicle for making decisions based on commensuration.

In advancing its argument, the ministry cites a report from the parliamentary environment commissioner entitled *Growing for Good: intensive farming, sustainability and New Zealand's environment*. In this report the parliamentary commissioner, in considering nutrient management, comments on the relative merits of voluntary versus mandatory actions:

> A suite of tools, management practises and policy instruments are [sic] available (some of which have been discussed in Chapter 6). Given the declining trends in the quality of the environment, particularly fresh water, it would appear the voluntary approaches used to date are not sufficient. Regulation will probably be required. The exact type of approach would be best developed with the characteristics of individual catchments in mind. (Parliamentary Commissioner for the Environment, 2004, p.185)

None of the initiatives promulgated to date has established, or overtly seeks to establish, measurable water quality criteria. The result may be success in meeting measures specified in the programme, but this may bear little or no relation to water quality improvement.

Perhaps, in the end, this will be a contest between on-the-ground practices versus planning: central government's *Sustainable Water Programme of Action*, or Dairy Insight's *Dairy Strategy for Sustainable Environmental Management*. Who gets to pollute has always been political. The experience of the last four years suggests that cleaning up pollution has become equally political. The 'winner' gets not only to clean up water to his/her standard, but to define how water quality fits into the overall ambit of public policy issues.

Of course, despite all this, the fate of the quality of water in agricultural areas is unclear. It may be that the prominence of the issue is all we get. Aaron Wildavsky captured it well in his prominent work on public policy in which he reports on the work of the Delaware River Basin Commission. Of its efforts to deal with pollution he writes:

> The effort was (and is) the largest aimed to clean up our rivers. The work involves five states, hundreds of

millions of dollars, and extensive efforts at the most modern technical analyses of costs and benefits. In its economic rationale and political process it is typical of environmental policymaking. It is also a failure. Of course, the river will be cleaned up in some sense of the term except that, for the most part, the Delaware will remain unswimmable, unboatable, unsightly, and only slightly more fishable, smellable and potable. That is not much gain for approximately three quarters of a billion dollars, not much, that is, if you value results. But if the cleaning is what you value, if your aim is the ritual of purification, then the whole thing is a rip-roaring success. (Wildavsky, 1987, p.184)

There is no doubt that New Zealand's rivers, too, will be cleaned up to some extent. At this stage, though, government and dairy farmers seem to be in the early stages of the activity of cleaning. It could also be that the government and the dairy farming industry are not involved in the ritual of water purification as much as they are involved in the ritual of public policy in practice. The old formulation of 'who gets what' seems to apply here – who gets to control the water quality issue. Fonterra Co-operative Group's opening shot of action on-the-ground seems to have been initially decisive. If it wishes to keep its prominent position as the dairy industry's environmental champion, it will have to hold off strong challenges from central government and other industry organisations.

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**Russell Harding is a senior lecturer in the School of Government, VUW, where he teaches public management. His research interests include public sector ethics and natural resource management and policy. He was a natural resource advisor for the State of Oregon Department of Environmental Quality for 11 years, engaged in various aspects of water quality management. He can be contacted at Russell.Harding@vuw.ac.nz.**

# The Paradox of Managing for Outcomes

Karen Lewis

## Introduction

Government departments are required to consider and report on the linkages between departmental outputs and the government's intended outcomes (Steering Group Managing for Outcomes Roll-Out 2003/04, 2002). But are the objectives of 'managing for outcomes' (MFO) being achieved? While, as Ryan (2006) noted, it may be too early to conclusively answer questions around MFO, it is possible to reflect on the practice in light of the evidence available in departmental statements of intent (SOI).

It is unarguable that there should be accountability for outcomes. The objectives of the public sector are constitutionally determined by an elected government. Government must meet the needs of its electorate and those needs are ultimately served by the achievement of desired policy outcomes. It follows that accountability for outcomes should ultimately rest with the ministers who have contracted for the delivery of outputs which contribute to those outcomes.

An important component of this debate is a clear understanding of accountability. The public sector in New Zealand has equated accountability with answerability (Gregory, 1998, p.529; Boston et al., 1996, p.320). Answerability is in the same spirit as Gray, Owen and Adams' definition of accountability as 'the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible' (Gray, Owen and Adams, 1996, p.38).

Gregory and Hicks (1999) have subsequently argued that accountability in the sense of answerability is a narrow application of accountability and that this application may cause damage in the long term to public institutions, albeit while succeeding in delivering enhanced shorter-term accountability. They have argued for recognition of responsible accountability, which incorporates 'a willingness to answer honestly for standards of personal behaviour that enhance the real and apparent *trustworthiness* of public service' (p.8, italics in original). Arguably, emphasis on a contracting environment undermines this sense of accountability from the public service.

Under the doctrine of ministerial responsibility, ministers will be accountable for the actions of their departments (Pallot, 1998). Indeed, the public in New Zealand has continued to hold the political executive to account irrespective of subtleties within legislation. However, this does not absolve chief executives from providing accountability. Scott (2001) acknowledged that the doctrine as proposed by Palmer and Palmer (1997) has changed somewhat in practice:

> Chief executives are now much more accountable for the delivery by their departments of specific services, and they can face severance or non-renewal of contract on performance grounds alone. This is very different from the past, where performance was neither specified nor measured, tenure was permanent and only gross and obvious failure was punished. (Scott, 2001, p.126)

MFO has led to at least one important unintended consequence: it has increased the accountability required by contracting departments and thereby *at least by implication* shifted accountability away from ministers. Public perceptions of failure to deliver may then result in blame resting with departmental chief executives, who are employed on fixed-term contracts. Thus, chief executives can become the sacrificial lambs, and the risks they now face are exacerbated by the increased accountability which MFO demands of them.

This article first provides background on the reforms which have affected public sector accounting and accountability, and then discusses the purpose of the 'Roll Out' document in getting departments to report on their contribution towards governmental outcomes. The effects of MFO are examined using Children, Youth and Family Services (CYF) as an example. Finally, the article reflects on the subtle but potentially damaging effects of shifting accountability away from the political executive.

## From cash accounting to accountability for outcomes

The traditional approach to allocating funds to government departments was through appropriations, with monitoring of the subsequent expenditure. This arguably resulted in a culture within government departments of spending up to the budget allocation, and a public perception that the public sector was not required to provide value for money. The type of restructuring carried out in the late 1980s and early 90s has since become known as New Public Management (NPM). NPM was introduced to counter the widespread belief that there was an excessive amount of waste in the 'old' system. As Norman and Gregory (2003, p.35) summarise, 'the aim of these reforms was to focus the attention of public servants on results rather than bureaucratic procedures'.

A key component of the reforms was to change the way that departmental budgets were allocated (Boston et al., 1996). Input allocations fostered the culture of spending up to the budgeted amounts. Replacing the previous input-based allocation was a model which recognised that inputs were provided to deliver outputs, which would result in government's intended outcomes. The definitions of outputs and outcomes are a critical component of public management in New Zealand.

Outputs and outcomes are defined in the Public Finance Act 1989. Outputs are defined as 'goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body; and … include goods or services that a department, Crown entity, Office of Parliament, or other person or body has agreed or contracted to supply on a contingent basis, but that have not been supplied'. An outcome is defined as a 'state or condition of society, the economy, or the environment; and … includes a change in that state or condition'.

There is thus a clear distinction between outputs and outcomes. It is apparent that outputs are more measurable in nature, while outcomes hold more qualitative characteristics and are more complex in their composition. They are therefore much less amenable to measurement. The services of the police force are commonly used to illustrate the essential differences between outputs and outcomes. Inputs, under the traditional model, were the funds allocated to pay for expenses such as 'officer hours'. An output for the police force is the number of arrests made, while an outcome of the police force may be a safe and law-abiding society. This simple example already begins to hint at the difficulties that arise when attempts are made to measure outcomes. For outcomes, the relationship between cause and effect is also less obvious, particularly as outcomes frequently are affected by several outputs from various sources and by other external factors, over which government agencies may often have little if any control. Outcomes are significant as the expression of government policy and fulfilment of public expectations.

The State Sector Act 1988 introduced contractual arrangements between the government and departmental chief executives. These 'freed' the executives to manage the inputs by removing restrictive detail from their budget allocations, while making them manage their outputs (Baehler, 2003). Chief executives received inputs and were expected to provide outputs, with ministers responsible for outcomes. The emphasis for chief executives and their departments was clearly and deliberately placed on the delivery of outputs.

Outputs are an appropriate level for accountability, as in most cases they can be measured in some manner. Indeed, the nature of a contract for outputs implies a shared understanding of the measures that are to be used. Outputs and, to a much lesser extent, outcomes became the focus of agreements between the ministers and their departments. The New Zealand Police, for example, contracts for a variety of outputs, including policy advice and ministerial servicing, general crime prevention services, specific crime prevention services and maintenance of public order, police primary response management, investigations, case resolution and support to judicial process, and the road safety programme (New Zealand Police, 2006).

Davis characterised bureaucracy under NPM as 'concerned not with some nebulous public good but with meeting performance indicators set out in an agency agreement' (cited in Norman and Gregory, 2003, p.37). The business model that was used in shaping the reforms placed pivotal importance on performance management and reporting.

## Managing for outcomes: a paradox?

The State Services Commission (SSC) issued *Managing for Outcomes* in August 2002. The stated objective of *Managing for Outcomes* – to encourage departments to report on their contribution to governmental outcomes – attempts to shift government departments' focus from outputs to longer-term outcomes.

However, outcomes under the NPM model were not intended to be measurable – at least not in the way that MFO appears to require. Furthermore, MFO attempts to shift accountability from elected ministers to their departments. Paradoxically, the implementation of MFO may be leading to a shorter-term focus for outcomes rather than raising the timeframe for outputs. This is because the timeframe for outcomes is truncated by focusing on quantitative measures, by the difficulties of effectively reporting the complexity inherent in outcomes and in holding chief executives accountable for outputs within their fixed-term contracts.

The SSC carries out its statutory roles of appointing and assessing the performance of public service chief executives, and investigating and reporting on matters relating to the performance of departments and providing guidance on the integrity and conduct of state servants. MFO seeks to improve the performance of the public service by changing the focus within departments from a one-year timeframe, driven by contracts with government and the budgeting process, to a 'longer term, outcome-focused approach to management' (Steering Group Managing for Outcomes Roll-Out 2003/04, 2002, p.1).

A key point is that departmental chief executives are not to be held accountable for *achieving* outcomes, but for '*managing for* outcomes'. This subtle distinction is critical to the implementation of MFO. Although the document states that chief executives were not to be made accountable for achieving outcomes, MFO does not state who, if anyone, should be accountable for the achievement of outcomes. The intention to manage outputs to ensure that they efficiently and effectively contribute to the ultimate achievement of outcomes is laudable. But how realistic is it?

The *Managing for Outcomes* document outlines the process departments must follow in determining how their outputs contribute to outcomes. The result of the process is the department's SOI (Steering Group Managing for Outcomes Roll-Out 2003/04, 2002, p.6). This relationship, linking a long-term-focused process to a statement of one year's duration, attempts to align short-term goals with longer-term outcomes. But it raises the question: has MFO resulted in a reduction in the scope or timeframe for outcomes?

The definition of outputs provided in the Public Finance Act ensures that they can be reasonably accounted for, while the definition of outcomes leaves them significantly less amenable to accountability. Modell (2005, p.58) states that 'adequate measures of outcomes are pivotal for ascertaining the effectiveness of public-sector organisations'. While Modell supports outcomes as more important than outputs, outcomes are not widely used in accountability regimes. Modell acknowledges that proxy measures of outcomes tend to be closely linked to operating process considerations (p.63), which suggests that reporting is more closely linked with outputs than outcomes.

Modell's assertion that outcomes are pivotal for ascertaining the effectiveness of public sector organisations raises the question: who should be accountable for them? The answer would seem to be that MFO requires greater accountability from the chief executives of the contracted departments.

This situation can be illustrated by reference to the case of Children, Youth and Family Services.

## MFO in practice: Child, Youth and Family Services

CYF was created as a government department in 1999 and had statutory duties under the Children, Young Persons and Their Families Act 1989, including:

(a) advanc[ing] the wellbeing of families and the wellbeing of children and young persons as members of families, whanau, hapu, iwi, and family groups:

(b) mak[ing] provision for families, whanau, hapu, iwi, and family groups to receive assistance in caring for their children and young persons:

(c) mak[ing] provision for matters relating to children and young persons who are in need of care or protection or who have offended against the law to be resolved, wherever possible, by their own family, whanau, hapu, iwi, or family group. (Children, Young Persons and Their Families Act 1989, preamble)

The department has multiple targets, and analysis of all of its objectives would provide more information than is needed in the present discussion. So CYF's main function, the care and protection of children, will be used to illustrate MFO's results.

The output expense for care and protection services described in CYF's 2006 SOI outlines discrete social work processes and activities as performance measures (see Appendix 1). Such processes and activities are unlikely to be considered a final product or service that is delivered externally as the Public Finance Act's output definition would require. This evidence supports Modell's statement that proxies tend to focus on processes.

'Outcome indicators' are used by CYF and the Ministry of Social Development (MSD)[1] in their respective SOIs. No reference is made in the Public Finance Act nor in MFO to outcome indicators, but it is apparent that outcome indicators are an intermediate step indicating how each departmental output contributes to eventual outcomes. The necessity for intermediate steps can lead to a shorter-term focus for outcomes.

The outcomes to which CYF contributes under its 2006 SOI are narrower than their previous definition, partly due to a major external review of CYF, which coincided with the introduction of the MFO environment. The focus has narrowed from the previous outcomes, which spoke of 'children and young people [being] respected and valued and [having] a say in decisions that affect them' (CYF, 2005, p.23). Now, they speak of 'the safety and security of children and young people' (MSD, 2006), in line with recommendations from the Baseline Review. The 2006 SOI (p.120) indicates that as a priority, CYF's outcomes should be focused on preventing the recurrence of harm and child and youth reoffending. CYF openly states in its 2005 SOI that it should not be expected to be a broadly focused family support service or to lead community development.

CYF has attempted to define its outcome indicators in the last two years, but has not yet completed this task. Of the seven outcome statements in its 2006 SOI, only two have final outcome indicators, two are 'works in progress', and for the remaining three CYF is still searching for appropriate indicators (refer to Appendix 2.) It would seem that CYF has adopted its final outcome indicators for their ready measurability, such as the rate of re-substantiation of abuse, and rates of offending and reoffending. These are essentially short-term measures, indicating that the drive for MFO has resulted in a scaling back of the department's intent and in reporting which focuses on process rather than actual services or activities.

The final outcome indicators do not acknowledge that there are many external factors that have an impact on the effectiveness of CYF's interventions. As in CYF's case, so too in many departments: it is common for many outputs to contribute to the achievement of a single outcome. Although CYF is the lead agency, the very nature of child care and protection work requires co-operation across different agencies, communities and families. The success of this work depends on how well all parties work together (Walker, 2006). There is no attempt in the outcome indicators to reflect the need for this co-operation.

This situation can only enhance the pressures on departmental chief executives. Usually, they are initially appointed for a five-year term, under the terms of the State Sector Act 1988, s.38(1). Thus, because the pressure is on chief executives to produce results within a relatively short timeframe, they have a strong incentive to put in place processes that will achieve this end, and little encouragement to fully and genuinely consider longer-term results.

CYF has had difficulty in retaining its chief executives, having had four within the past seven years. In light of the pressures the agency is under, always with inadequate resourcing, and in a context of high political

1 CYF's SOI was included in MSD's SOI in 2006, as CYF was in the process of being absorbed by the ministry.

risk and predominantly negative publicity (little public recognition is given to the effective and successful work it does), this may not be surprising.

## Conclusion

MFO brings about a subtle but very significant shift in accountability for outcomes, transferring the burden, on the face of it at least, from the political executive to the departments responsible for delivering outputs. Ultimately, accountability for policy outcomes should continue to rest with ministers, and in practice the public in New Zealand can still be expected to be strongly critical of ministers when things go wrong. People generally know little of or care less about distinctions between outputs and outcomes.

It is ironic that MFO is reinforcing an emphasis on bureaucratic procedures when it is intended to more strongly focus departmental attention on the collaborative achievement of outcomes. This cannot be readily measured in many cases and attempts to enhance accountability by trying to do so are likely to succeed at the cost of oversimplifying governance and governmental complexities.

The solution, if there is one, is not to try to make longer-term outcomes rigorously measurable, as if they were shorter-term outputs. It should instead involve a search for smarter, and more politically contestable, ways of ensuring accountability, ways that recognise the complex and often necessarily ambiguous nature of many policy outcomes, as they become apparent over time.

## Appendix 1: Non-financial performance indicators from MSD's *Statement of Intent 2006/07*

### Output Expense: Care and Protection Services

#### Description

This output expense includes the provision of services, both statutory and informal, that protect and assist children and young people who are in need of care and protection.

#### Scope

The scope of this output expense includes:

- the notification, investigation, and assessment of reports about children and young people at risk of physical, sexual, or emotional abuse, neglect, self-harm, or behavioural difficulties
- the management of casework where Child, Youth and Family intervenes to achieve care and protection outcomes
- the coordination of Care and Protection Family Group Conferences
- support for families to improve their capacity to meet their care, control, and support responsibilities
- the provision of care in the nature of foster care and residential services

### Performance Information

| 2004/2005 Result | Performance measures | Standard 2005/2006 | Standard 2006/2007 |
|---|---|---|---|
| 53,097 | **Quantity**<br>Number of intake notifications received by Child, Youth and Family: | 51,500-59,700 | 71,400-78,910 |
| 43,460 | Number of intake notifications that require further action (FARs): | 42,900-49,850 | 52,300-57,800 |
| 5,422 | Number of care and protection Family Group Conferences: | 5,150-6,000 | 7,080-7,830 |
| 4,853 | Number of children and young people in care and protection care placements at any time during the year (as measured at the end of each month): | 4,700-5,250 | 4,900-5,400 |

| | | | |
|---|---|---|---|
| | **Timeliness**<br>*Response to notifications*<br>Notifications allocated to a social worker for investigation within timeframes: | | |
| 97.8% | Critical – within 24 hours | 95%-100% | 95%-100% |
| 95.9% | Very Urgent – within 48 hours | 95%-100% | 90%-95% |
| | Action taken at sites by a social worker to establish the immediate safety of the child or young person, and to confirm the response time and further action required, within timeframes: | | |
| 51% | Urgent – within 7 days | 50%-85% | 50%-85%[47] |
| 62.4% | Low Urgent – within 28 days | 50%-85% | 50%-85% |
| 58.7% | Investigations will be completed in a timely manner | 70% in 90 days if FAR received is less than 48,050. 70% in 120 days if FAR is 48,050 or more | 70% in 90 days |

- the provision of resolution services to assist achieving care and protection needs
- the improvement of life outcomes of the children, young people and families involved.

This output expense also includes the provision of services to support other statutory responsibilities of the Chief Executive such as reports provided to the Family Court under the Care of Children Act 2004.

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## Appendix 2: Outcome Indicators for CYF from MSD's *Statement of Intent 2006/07*

### Outcome Indicators

| FREE FROM ABUSE AND NEGLECT | FINAL OUTCOME INDICATOR | PROPOSED OUTCOME INDICATOR |
|---|---|---|
| To prevent the recurrence of child abuse, neglect and insecurity of care | Re-substantiation of abuse, neglect or insecurity of care. | |
| That the effects of harm are addressed | | An appropriate indicator is being investigated.<br>Our review of last year's indicator *"FGC plans/FWAs/Court Orders completed and objectives met"* has found that while we capture data on this indicator, it does not appropriately measure progress towards this outcome.<br>An appropriate indicator is being investigated. |
| To prevent the first occurrence of abuse, neglect or insecurity of care | | Our review of last year's indicator *"Percentage of cases that are referred to a third party organisation (prior to investigation) that are not re-notified"* has found that while we capture this data, the indicator itself does not appropriately measure progress towards this outcome. |
| To restore or improve wellbeing (including achieving permanency and stability) | | Improvement in developmental milestones (including for children in care) along educational attainment, behaviour and health dimensions. |
| | | Proportion (%) of children in care placed with their family or whanau.<br>Proportion (%) of cases in which the objectives of permanency plans are met. |


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| CHILDREN AND YOUNG PEOPLE FREE FROM OFFENDING | FINAL OUTCOME INDICATOR | PROPOSED OUTCOME INDICATOR |
|---|---|---|
| To reduce the rate and severity of child and youth offending | Rate of offending<br>Rate of re-offending<br>Severity of re-offending | |
| To hold young people to account for offending | | Victim perception of whether the offender has been held to account for their offending following the Family Group Conference (FGC)<br>Offender perception of whether they have been held to account for their offending following the FGC |
| To restore or improve wellbeing | | An appropriate indicator is being investigated.<br>Our review of last year's proposed indicator *"The objectives of the Youth Justice FGC or Court Order have been met"* has found that this indicator does not appropriately measure progress towards this outcome. |

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**Karen Lewis is a lecturer in the College of Business and Economics at the University of Canterbury. She teaches financial accounting, and has an interest in public sector accounting and accounting history. Her current research focuses on the relative merits of sector-neutral accounting in New Zealand. She can be contacted at: Karen.Lewis@canterbury.ac.nz**

# Britain's Sustainable Communities Bill – a model for New Zealand?

Mike Reid

## Introduction

It is not very often that the leader of a political party publicly admits his team got it wrong, but that is exactly what David Cameron, the leader of the Conservative Party in the United Kingdom, has recently done. In his manifesto-like paper 'The Permissive Society' (2006), in which he outlines his thinking on a new social philosophy, Cameron discusses the apparently sorry state of local government and comments that 'there is a renewed need for greater local fiscal autonomy and for strong civic institutions'. In discussing how this need arose he further notes, reflecting on the Conservatives' last period in office, that 'we Conservatives must accept our share of the blame' (Cameron and Spelman, 2006, p.7)

Mr Cameron's road to Damascus experience is associated with the Sustainable Communities Bill, an initiative intended to provide communities with a greater say about how public resources are allocated in their cities and districts. The bill, which is a private members' bill, was introduced into the House of Commons in November 2006 with the active support of the Conservatives, the Social Democrats and a significant number of Labour MPs. If enacted it could radically reshape the centralised nature of the British polity.

## The Sustainable Communities Bill

Having begun its with a call from the Social Democrats for greater devolution,[1] the Sustainable Communities Bill sets out to give communities a greater say over the way in which government spending within their boundaries is allocated and prioritised. The bill allows communities, through their local authorities, to require the secretary of state to provide a 'local communities account' for their area. This account sets out, as far as practicable, the amount government departments and agencies are planning to spend on services in the relevant local authority area, as well as identifying individual proposals to which money has already been allocated. Spending plans are required to cover a four-year period and must be provided within three months of any request. Services of national significance, which are to be defined in advance, are excluded from the process.[2]

Having received its local communities account, a series of duties are imposed on the local authority. These include:

- to prepare, within six months, a spending plan containing a range of proposed services and projects that will benefit its communities;
- to give public notice of its intention to prepare a spending plan and invite representatives from a variety of local 'peak' organisations to take part in the preparation of the plan;
- to make the plan available for public inspection.

The local authority must also ensure that the plan contributes to the sustainability of communities, while taking into account the government's action plan for sustainable communities. On completion, local spending plans are submitted to the secretary of state, who must then approve them, with or without amendments, within three months. If a local spending plan is amended, the secretary of state must publish a statement explaining the reasons for the changes. The secretary of state must also:

- monitor the implementation of the plans by government departments;
- provide an annual report to parliament on the implementation of such plans; and
- direct, if necessary, a government agency to implement the plans.

1 *Guardian Unlimited*, 3 November 2006.

2 To reduce 'game playing' the secretary of state must justify why any service classed as 'national' has been given that classification.

In addition, the bill requires the secretary of state, within two years of enactment, to publish an action plan to promote the sustainability of local communities. This plan must have a ten-year focus, contain a range of local and general measures, and invite local authorities to comment. Any local authority that wishes to make representations must have given its citizens, including youth and marginalised communities, an opportunity to comment on the content of the action plan before such representations are made. The bill makes provision for the secretary of state to initiate revisions of both local communities' accounts and the action plan for sustainable communities.

The bill is framed in both sustainability and localist terms, and represents an interesting challenge to the centralised nature of the British polity. Its endorsement of a kind of participatory budgeting treats citizen participation and engagement as having more than just instrumental value. While engaged individuals and groups taking a more active say in the way their local environments are shaped and resources allocated may contribute to sustainability, participation also has substantive value, not only helping to ensure that government spending is well targeted but also strengthening communities, building social capital and enhancing trust in public institutions. The bill, by allowing local citizens and their representatives to comment on and effectively supplant the allocation decisions of government departments, addresses a range of public policy issues that are not confined to the United Kingdom. These include:

- the information problems faced by national decision makers and their advisers when attempting to design services and programmes for communities which are becoming increasingly diverse;
- the problem of providing contestable advice on whether or not proposed spending plans are relevant and appropriate for the targeted communities;
- the challenge of increasing the responsiveness of government departments and agencies by providing an additional mechanism through which the clients and consumers of the services provided by those departments and agencies can exercise voice and express their views to decsion makers;
- a method for addressing the problem of silos by subjecting departmental spending plans to greater public scrutiny in a manner that can highlight gaps and duplication, potentially a form of 'joining up'.

In summary, the bill not only provides a way of dealing with what we might call the problem of centralisation; it also shifts to a more citizen-oriented form of politics, something approaching a co-production model. While the bill is unlikely to succeed, at least in its original form, it provides an interesting approach to achieving increased responsiveness to local diversity while still allowing the state to exercise a national mandate. In effect it proposes what Sir Michael Lyons has described in his inquiry report as a state of 'managed difference' (Lyons, 2007).

## The United Kingdom context

The United Kingdom represents one of the more centralised states within the OECD. but it has not always been that way. In the past British local government was amongst the most autonomous in Europe, but while the role and function of European local government has advanced, the UK has suffered a reversal and experienced a 'consistent erosion of local government powers and responsibilities' (Banner, 2002, p.218). Arguably, this decline was halted by the election of New Labour in 1997 and its embrace of a range of modernisation strategies to revitalise local politics, for example the Best Practice Regime, Strategic Local Partnerships, Local Area Agreements, Compulsory Performance Assessments (CPA) and directly-elected mayors. It has even experimented with regional assemblies and the idea of 'double devolution' or devolution to neighbourhoods.[3] Modernisation, however, does not necessarily reflect a consistent move towards greater locality empowerment, despite the rhetoric. Stoker (2002) argues that the government has adopted a conscious 'policy as lottery' approach to reform in which local government is used as a laboratory to try out a range of random initiatives with a view to seeing which ones might take root and flower. While the emphasis has been placed on responsiveness and efficiency, the government has not yet embraced the level of devolution desired by many in the local government sector, such as the Local Government Association. As of early 2007, local government rates were still capped, business rates were taken by the Treasury[4] and councils were subject to annual compulsory performance audits with targets set by Whitehall. Cameron argues that

3 Ironically, since consolidation in the UK, councils are now regarded as too distant from communities to be effective models of local democracy, therefore the need for double devolution.

the national inspection regime is now costing councils more than one billion pounds per annum (Cameron and Spelman, 2006, p.9).

Not surprisingly, alternative narratives have developed that aim to give greater voice to communities and autonomy to councils. Since the late 90s the debate has become framed by the concept of 'new localism', a concept promoted in a paper produced by the New Local Government Network entitled *Towards a New Localism* (Filkin et al., 2000). The idea of new localism challenges the notion that councils are in essence service providers for the Crown, and argues the need to restore the legitimacy of local public services, strong local leadership and greater responsiveness. To that degree it merges much of the modernisation agenda endorsed by New Labour, particularly its emphasis on accountability and performance, with the more traditional localist concerns of autonomy, self-management and place. The vision advanced by the new localists is one in which local authorities have a strong and popular democratic mandate to represent and promote the well-being of citizens, as opposed to the alternative functionalist interpretation of local government's role.

> The local authority should be the guardian of the public realm, the champion and protector of consumers, the supporter of social citizenship goals and of civic society and the promoter of the economic and social health of the community and of inclusive and cohesive communities. (Filkin et al., 2000, p.7)

The localist agenda has also been taken up by the national organisations of local government, although with some qualifications. The chief executive of the Local Government Association, Sir Brian Briscoe, argued that the opportunity had to be seized to 'establish councils as the champions of localism, and to reaffirm their role in securing local democratic accountability of public services'.[5] Briscoe, however, also expressed concern that the new localist brand was in danger of being used to undermine the intent of its supporters and to 'take the politics out of local government',[6] an oblique reference to the growing enthusiasm for networks and other forms of joined-up governance that have oblique forms of accountability (Bound et al., 2005).

The idea of new localism has set the context for the emergence of the Sustainable Communities Bill. While supporters of the bill may have one eye on the forthcoming general election, its recognition of the new localist agenda, the role it gives to communities of place and the opportunities it provides for citizen participation, not to mention its anti-centralisation rhetoric, appear to resonate with a wide audience. Yet will it resonate in the New Zealand context? Is the New Zealand electorate ready for a 'down under' brand of new localism? Certainly, the lack of any clearly articulated devolutionary viewpoint within the New Zealand parliament doesn't augur well so far.

## Is the Sustainable Communities Bill relevant to New Zealand?

Given the disparity in population and size, one might be forgiven for assuming that a citizen-centred approach to public decision making would have a considerably greater chance of success in New Zealand than in the United Kingdom; however, it is worth considering not only the differences but also the similarities between the two systems. The British system of local government is characterised by high levels of national funding (more than 50% of council income is provided by the state), centrally-determined performance targets and rate capping, all of which create constraints that are not present in New Zealand, where councils have considerably more political and financial autonomy (approximately 11% of income is provided by the state). Councils in the United Kingdom play a major role in the provision of social and community services, in essence acting as agents of the Crown, while councils in New Zealand have a narrow range of mandatory functions and social services are delivered by the centre. Despite their differences, a common feature of both systems is the degree to which major policy and funding decisions are made by the departments and agencies of central government, despite the role councils in the United Kingdom play in the delivery of those services. Both are examples of highly centralised polities.[7]

4 The government re-distributes a proportion of the business tax back to councils on the basis of a formula.

5 Local Government Chronicle, 17 April 2003.

6 Ibid.

7 With perhaps the exception being the Resource Management Act 1991, which devolves a considerable (but diminishing) level of autonomy for environmental management to local government in New Zealand.

Two other features of New Zealand's institutional landscape may be relevant to the discussion: the centralisation of government offices in the capital (many councils have no government offices permanently based in their areas, other than the New Zealand Police), and the largely non-party political nature of our councils. The centralisation of government administration and the degree to which implementation is carried out through contract weakens the ability of the state to respond to local circumstances. The lack of staff 'on the ground' means that many departments have less direct information about community needs and preferences and are forced to rely on the views of third parties or the analysis technical data. A model like the Sustainable Communities Bill can fill the void left by the withdrawal of government offices. It might also act to fill the information gap created by the lack of a 'party politics' at the local level in New Zealand.

British local government is a microcosm of the national political landscape, with councils under the political control of local branches of national political parties. As with local government in Ireland, overlapping membership creates networks and informal channels through which councillors can both influence policy and exercise voice at the national level. The role of 'party politics' is so entrenched that even the UK Local Government Association is organised along national party political lines.[8] In contrast, the lack of any formal political presence by major parties in New Zealand local government effectively diminishes one of the potential channels through which localities might influence central policy makers. A Sustainable Communities Bill is one way of filling this gap. Of course, overlapping party membership of the UK type can also have the perverse effect of constraining local autonomy and limiting local dissent, in the interest of party unity.

The Sustainable Communities Bill addresses a core public policy issue about the appropriate role of the centre in determining policy and service priorities in local communities. The question, simply put, is how to design institutions and processes that allow governments to achieve their welfare objectives while recognising and accounting for community difference, difference that includes ethnicity, culture, social and economic conditions and, of course, preferences? Parker and O'Leary, in their work on the New Zealand public sector, note that governments are increasingly dealing with complex or 'messy' problems, which are problems that are not amenable to traditional solutions: 'One size fits all solutions can alienate staff and produce unintended consequences by failing to engage with the complexity of peoples' needs' (Parker and O'Leary, 2006, p.29). The Sustainable Communities Bill offers a particular solution to this problem by providing for the participation of citizens in public policy making and is consistent with Considine's view that such participation has both instrumental and developmental benefits: instrumental, in that citizens will provide information that can improve policy making, and developmental because the process of participation itself contributes to social capital and 'creates and communicates moral principles [that] express personal and group needs' (Considine, 2005, p.192).

The idea that citizen participation strengthens public policy making is not new. Apart from being one of the underpinning values of local government's empowering legislation, it has also influenced recent thinking about public management reform. One of the criticisms of New Zealand's approach to public sector reform was that too much attention was focused on outputs at the expense of their effects on citizens, and that the enhanced Wellington-based policy making capacity that resulted undermined the role of the community in policy design and service delivery specifications (Ryan, 2003). The Review of the Centre (SSC, 2001) addressed this concern and rejected a 'one size fits all' approach in service delivery, preferring 'local customized responses within national strategic frameworks and an emphasis on participation and state/civil society relationships' (Ryan, 2003, p.15). More recently, Parker and O'Leary have noted the importance of involving citizens in governance as a way of addressing the complexity of life in the 21st century and, as they put it, 'learning how to create more outcome value for citizens without sacrificing the values of fairness, transparency, integrity or independence' (Parker and O'Leary, 2006, p.14): an approach that fits rather well with Lyons' idea of 'managed difference' noted above.

A New Zealand version of the Sustainable Communities Bill, with its enhanced opportunities for local advocacy, would not only reinforce the solutions proposed in

8 The president of the association is selected from the party that controls the most councils.

the Review of the Centre, but also complement the outcome-focused planning regime introduced by the Local Government Act 2002 (LGA 2002). The LGA 2002 requires councils to facilitate a process to identify community outcomes at least once every six years and to prepare long term council community plans (LTCCPs) every three years. Community outcomes represent the desired long-term expectations of communities of place. LTCCPs are required to explain to the community how the council will contribute to the achievement of those outcomes and may also include information on how other sectors will also contribute. The government was quite specific and saw the outcomes process as a way of promoting and guiding 'the setting of priorities in relation to the activities of the local authority and other organisations' (LGA 2002, s91(2)(e)). In other words, articulated community outcomes should not only guide the activities of councils, they should also assist other agencies, including government departments, to set locally appropriate targets and ultimately better align their policies and programmes.

By the end of June 2006 councils had completed their first full LTCCPs, for the 2006–2016 period. Although the quality and scope of this first tranche of LTCCPs probably reflected an over-emphasis on legislative compliance, a number of councils sought to use their plans, and the information gathered through their community engagement processes, to align central government programmes with locally determined outcomes. New Plymouth District Council, for example, used its LTCCP to show how government departments contribute to the region's outcomes, while Rangitikei, a rural authority without any government departments based in its district, took a particularly novel approach. Wishing to engage with departments and public agencies during the preparation of its LTCCP, the council organised a workshop in Wellington and invited relevant departments to attend in order to brief them on the district's priorities and needs. The workshop was well attended by government representatives and regarded by the council as an important first step in addressing the unique concerns of that district.[9] Having identified their communities' outcomes, councils are now well placed to initiate strategic conversations with central government agencies on strategies, programmes and projects to facilitate their achievement.[10] Likewise, they are well placed to contribute to the model envisaged by the Sustainable Communities Bill, which requires information on local priorities to work. The caveat on this proposition is the quality and inclusiveness of the processes which councils have employed to identify outcomes and establish priorities, something that is addressed in the detail of the bill but which is not as well prescribed in the LGA 2002.

The process of implementing the LGA 2002 has given local authorities in New Zealand the information and experience to contribute to the sort of process envisaged in the Sustainable Communities Bill, and many would enthusiastically embrace the model it proposes in preference to the voluntary collaborative approach inherent within the LGA 2002, where the involvement of government departments and agencies is ultimately at the whim of senior management. Encouraging citizen-oriented decision making within a sustainable communities framework has the potential to promote policy learning and innovation as well as increasing trust in the political processes of government. Trust comes from the transparency achieved by 'opening up' departments' discretionary spending decisions to local scrutiny, something local authorities themselves are well used to. Greater openness should bring government closer to the people, an objective around which there should be substantial political consensus. It may also provide decision makers within the government with access to alternative sources of policy advice.

Inevitably, some local authorities will see the proposal as yet a further impost, another unfunded mandate, and be reluctant to participate. While it would be foolish to underestimate opposition on these grounds, it is interesting to note how the architects of the Sustainable Communities Bill have attempted to guard against such risks by refusing to make the requirement mandatory on local government. As long as the process remains a matter that is agreed between councils and their communities, then opposition is likely to be minor. Councils should be interested, as they have a direct interest in both the

9 Communities' access to government is consequently determined by macro political or policy factors – the chief executive of Kaipara district, for example, recently noted in a private conversation that his council has no difficulty in attracting departmental staff to meet, despite their distance from Wellington.

10 Despite a range of initiatives to encourage central local collaboration, it is interesting that no government agency has so far acknowledged local outcomes in their various statements of intent, even though a number of councils have used their LTCCPs as a way of acknowledging the contribution of central government programmes to their local outcomes.

quantity and quality of central government expenditure in their areas, and most should be conscious of the contribution to community well-being that can be achieved by ensuring that government investment in their districts is better targeted. Spending by central government agencies in towns and cities is considerably greater than the local government contribution, and one of the big questions local politicians inevitably face once in office is whether or not their community receives its fair share of that spending.

The bully pulpit is one of the core roles of local government and councils have become effective advocates for their communities, whether opposing the closure of rural schools, protecting access to local health services, demanding a greater share of road user charges or expressing concern at the uneven allocation of police numbers. Questions about the quality of government expenditure, however, are difficult, largely due to the lack of accurate information available to local decision makers and citizens and the lack of an effective local forum to enable trade-offs to be made between alternative spending proposals. There is currently no mechanism to allow communities to examine the relevance of central government spending in localities and whether or not that spending addresses local priorities and needs. Adapting the LGA 2002 might provide the next best opportunity.

## Conclusion

The Sustainable Communities Bill represents a largely symbolic attempt to redress the centralism of the UK state and give practical effect to the new localist agenda. Symbolic, because, despite the support of the Conservative and Social Democrat parties and a sizeable number of Labour MPs, its chances of success, at least in its original form, are likely to be slim.[11] Yet the call for change is not limited to the opposition. Alan Milburn, the former health secretary in the Blair government, has recently called for local councils to be given the power to decide how the National Health Service budget is spent. Milburn promotes the idea of the enabling state and a 'new politics' in which people have more control over services, and suggests that the 'masters' should be 'local communities not Whitehall departments'.[12] Milburn and the promoters of the Sustainable Communities Bill are testament to the strength of the new localist agenda, an agenda that has yet to appear in a New Zealand political scene. At this point in our history, the New Zealand political and policy environment lacks any effective champion for a narrative which is both flax-root focused and citizen-centred. We are yet to see the emergence of an equivalent discourse of new localism that could seriously challenge our centralist orthodoxy.

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**Mike Reid is the Manager of Governance at Local Government New Zealand, the association of local authorities. In this role he advises councils on a broad range of governance issues including the provision of professional development programmes for elected members. Mike is also a contributing lecturer on local government in the School of Government, VUW. He is currently writing a PhD thesis on strengthening strategic local governance. His email address is: Mike.Reid@lgnz.co.nz**

# How Effective is Financial Education?

Alison O'Connell

New Zealand has an international reputation for its early promotion of financial education and information. Governments in many other countries are now sponsoring financial education programmes in efforts to improve apparently low levels of financial literacy. But despite it being such a hot public policy topic, there has been little evaluation of the effectiveness of financial education.

A recent study for the Retirement Commission (O'Connell, 2007a) investigates how well financial education is being evaluated around the world. It examines the findings of some frequently cited evaluations and some newer studies in academic and policy-related literature from New Zealand, Australia, Canada, the UK and US. It finds that despite much optimism, a positive impact from financial education has not been unambiguously proven. We do not know what works best and why. The study suggests that evaluating the effectiveness of financial education can and should be improved, even though the evaluation of financial education is inherently difficult and the impact of any one programme probably can never be fully isolated.

This article summarises some key points from the study. The first section sets the context for the international attention given to financial education. It then discusses the mixed results from financial education evaluations. The reasons why such evaluations are inconclusive are then explored. The article ends with some implications for this year's Review of Retirement Income Policy, and an assessment of the effectiveness of financial education available to New Zealanders.

## Increasing attention on financial education

'Financial education' is a term used around the world to refer to various methods used to increase an individual's financial understanding. Not all of these methods would be described as 'education' by educationalists. A financial education programme could be a retirement seminar at work, a budgeting workshop in the community, a website such as www.sorted.org.nz, or a school curriculum.

The result of the financial education is intended to be improved financial literacy or capability: people are better able to make informed decisions on their finances throughout life. Most countries use the term 'financial literacy'. The UK refers to 'financial capability', suggesting a more developed concept that emphasises financial actions over knowledge. But in practice, all financial education aims at the same ultimate goal, comprehensively defined by the OECD to include behaviour as well as skills improvement:

Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. (OECD, 2005 p.13)

Behaviour change may be the ultimate goal of financial education overall, but improvement in skills or knowledge can be a valid goal of a specific financial education programme. There is general agreement that financial literacy or capability is a broad concept – including financial goal-setting, budgeting, managing household cash flow, managing debt, saving and investing – because these are all linked in any individual's personal circumstances. But a single programme can focus on one issue (for example, budgeting) or can be more wide-ranging.

Governments are developing national strategies for financial literacy in the UK, US and Australia. With the setting up of the Retirement Commission in 1993, and the introduction of its website Sorted in 2001, New Zealand has been ahead of the trend for government-sponsored provision of broad financial education. Financial education programmes are not only sponsored by governments. Much of the academic literature from the US and Canada covers the recent growth in programmes run by local, university, employer and other communities.

Why is financial education now a public policy issue? It is seen as a way of improving levels of financial understanding, which are thought to be low in many countries. Financial education should, therefore, mitigate shared concerns that, for example:

- many people do not participate in financial services, so are missing out in some way: for example, people without bank accounts may have to pay more to administer their utility bills;
- there are very high levels of household debt, and people generally do not understand how much it costs to service that debt;
- people do not understand financial basics well enough to deal with the complexities of increasing financial responsibilities, especially for retirement savings and university education, which used to be carried more by government;
- where 'advice' is provided by financial services companies, it tends to focus on the products that are for sale, rather than personal finance more generally; further, it is only available to people who are in the market for those products.

Some commentators suggest that governments have a moral obligation to pay more attention to financial education because of policies shifting financial decision making onto the individual (e.g. Campbell, 2006). For example, the introduction in July 2007 of auto-enrolment to KiwiSaver means that New Zealanders have to engage with saving, even if it is only to make the decision to opt out. The New Zealand government explicitly recognised that financial education would have to be stepped up as part of the package (Office of the Minister of Finance, 2005).

With so much government, private sector and not-for-profit attention and funding going towards financial education, it can only be expected that there will be increasing scrutiny of the value for money received.

## Mixed results from evaluations to date

The evaluations of financial education programmes made to date are of three different types:

- First, there is evaluation built into a specific financial education programme, to identify how successful that programme has been. For example, studies have evaluated whether students who have taken a high school course in finance score higher on a financial test that those who have not, or whether people attending a retirement seminar save more as a result.
- Second, there is the evaluation of what impact financial education has had on the financial understanding of a population. National population surveys of financial literacy or capability have been carried out only in Australia, New Zealand and the UK. Time series of such surveys are not yet available, so no inference can be drawn on how financial education might improve population literacy levels.
- Third, there is evaluation of past experiments. This is the approach taken by most academic papers on the subject, which have been written mainly in the US. These experiments may have been set up for other purposes, but the data collected have proved convenient for researching the impact of financial education. Various associations are explored between having had some form of financial education and, for example, financial understanding (measured by correct answers given to financial questions) or financial behaviour (measured by the rate at which people are saving or their accumulated net worth). This type of analysis asks, in general terms, how effective financial education can be.

From the body of evidence, it does seem to be the case that:

- There is a low level of financial understanding, with the implication that it can be improved.
- Financial knowledge or capability is associated with higher age (although it is lower in the oldest age group), education, income and wealth.

- People scoring highly on financial knowledge are probably more likely to be those doing the 'right' things to manage their finances.

However, taken together, these evaluations show some contradictory results, and leave some questions unanswered. For example:

- It is not always the case that financial education is associated with the 'right' financial behaviour or good financial literacy. For example, the providers of the 'Jump$tart' financial education curriculum material in US schools cannot find evidence to say it is improving thrift or decision making around personal finances (Mandell, 2006). Pre-purchase credit counselling appeared, in a study by Hirad and Zorn (2001), to help prevent later default on home loans if carried out face to face, but not over the telephone.
- No study has proved education causes better financial literacy or better financial behaviour. Hilgert et al. (2003) find correlations between having financial knowledge and financial practices, but point out that the causality could flow either way, or in both directions (or there could be a third, unexplained factor at work). For example, it is not necessarily the case that, having learned about equities through a financial education initiative, you are then more likely to invest in them. It could be that having invested in some, you are then more likely to answer in a survey that you think you know about them.
- It is not clear how the benefits of improved financial literacy vary across the income distribution. Lusardi (2004) found that the positive effect of retirement seminars on financial wealth decreased steadily moving into higher quartiles of wealth. But the most affluent students have led recent improvement in financial knowledge in US high schools (Jump$tart Coalition, 2006).
- The interplay of factors other than financial education that may also affect financial behaviour is not well understood. Attending retirement seminars appears to increase financial wealth, but then other things are just as much associated with higher wealth (for example, going to college or not smoking).
- Financial education may sometimes act in undesirable ways, or, at least, in ways that conventional financial wisdom would suggest are undesirable. Mandell (2006) reports that students seem to get more from financial education if they have participated in a stock market game. But then they say they would not be thrifty, perhaps because they think they can rely on stock investments. After a retirement seminar programme in the US, almost 7% of people with a goal of retiring at age 65 said they would increase that age target, but over 7% said they would lower it (Clark and d'Ambrosio, 2003).

The positive results of some studies give much cause for optimism that financial education is a good thing. But these contradictions and unknowns mean that we do not yet understand how well financial education works. We cannot assume that an intervention which worked in one situation will do so elsewhere. Enthusiastic claims of financial education being a panacea for all supposed financial ills need to be tempered with some evidence. Better evaluation of the effectiveness of different types of financial education would help to develop that evidence base.

## Why evaluation results are inconclusive

Evaluating the effect of any education is difficult, and the success or otherwise of financial education is not easy to measure. This section considers four inherent difficulties with evaluating financial education programmes.

### Data integrity

Inevitably, most data is collected through surveys or interviews with people about their personal finances. Such data has well-known difficulties:

- The data may be limited and biased. Some people will not divulge personal financial information, so people taking part in any survey form a self-selected group. Many studies using personal financial data look only at individual's holdings in one product or with one institution, so are unable to identify whether, for instance, even if retirement plan saving went up, other household saving went down.
- Most of the data is collected from people self-reporting their own financial understanding, capability or behaviour, without actual observations to prove that they do what they say they do. People are not always accurate about financial matters. In the Australian survey of financial literacy, 67% said they have an understanding of compound interest,

but only 28% actually answered a question on it correctly (OECD, 2005).

- Data from different surveys is not comparable. Different data is collected in different surveys, although it may sound as if they are investigating the same issue. Surveys investigating how many people understand compound interest ask very different questions of different degrees of difficulty. Further, the 'right' answers to some financial literacy tests can seem trivial or misleading.

### Practical difficulties

Collecting financial education evaluation data is often time-consuming, costly and difficult. Lyons et al. (2005) found that evaluation was considered difficult by the US community-based financial education practitioners interviewed and many of the educators felt they lacked the knowledge or time to do it well. Evaluation was often an afterthought, without sufficient management attention or strategic thinking being applied.

### Isolating the impact of a specific programme

Even with a well-conducted survey, interpreting the results is not easy. The challenge lies in isolating the long-term impact of any specific financial education intervention, a task made difficult by the inherent nature of personal finances.

- Financial education programmes vary. A study looking at people who said they had attended a retirement seminar at some point in their career puts under the one heading of 'retirement seminar' many different types of teaching methods, subject matter and quality of material. Similarly, people who say they were exposed to some kind of consumer education at school will have studied a wide range of personal finance topics.
- No financial education programme works in isolation. Seemingly small encouragements from within a social network can make a relatively significant impact. Financial education may not work immediately, but take time, during which people are exposed to the powerful influences of family, friends, changes in life situation and legislative or tax changes. We do not know how all these other possible influences complement or compete with financial education initiatives.
- There is inherent, and unexplained, variation in individuals' financial behaviour. People appear more likely to say that they will make a change after financial education than they are actually to make a change. People make seemingly irrational financial decisions, even when presented with advice on what would be the best thing to do. Traditional economic theory does not explain the reasons for variation in financial behaviours, and newer behavioural economics does not yet complete the puzzle. So different people will act in different ways after financial education, and separating out how the education itself makes an impact will always be difficult.

### Putting the impact in context

Even if the effect of a specific programme could be isolated, there is then the difficulty of comparing it to what it should be. There are many different desirable outcomes that financial education could have, but it seems to be difficult to put the results in a critical context of what should be expected.

- The goal of financial education is not yet clearly defined. So far, champions of financial education have tended to assume it must be beneficial and done as much as possible, within limited budgets. Precisely what the financial education is trying to achieve and how this should be measured have received less attention. There is a long list of what the impact of financial education programmes might be expected or desired to be: see Box 1 for examples. Perhaps because they are easier to measure, the aims at the top of this list – improving participation, financial knowledge and attitudes – tend to get measured more often than those in the middle and at the bottom of the list, to do with individual behaviour and macroeconomic impact. However, there is a strong case for increasing the emphasis on evaluating how people actually change their financial behaviour as a result of financial education, not least as causality from better financial understanding to making the right financial decisions is not proven.
- There are no benchmarks for what should be expected on any measure for any population. There has been no debate in the evaluations of financial education so far on what the appropriate level or amount on each measure should be. For example, what balance between debt and savings

is the right one? In a survey of a population with a particular income distribution and cost of living, what proportion of people can be expected to have spent all their income at the end of the month? How many people should be able to answer a question on compound interest, or understand a superannuation statement, given the general levels of numeracy and literacy in the population? Assuming the goal of financial education is to improve these figures, what improvements are feasible? To get some idea of likely improvements it would be useful to compare data between populations, but the available data is piecemeal and far from being standardised.

Because of the practical, theoretical and conceptual difficulties of evaluating financial education programmes, it is unlikely that evaluation will ever be able to quantify absolutely the effectiveness of financial education. But still, given the increasing attention and funding being given to financial education, it can only be expected that the need to know whether financial education programmes are successful will increase.

Box 1: What is financial education trying to achieve?

- A target number of people receive generic financial advice?
- The level of financial knowledge, or capability, or confidence increases: generally across the population or in specific groups?
- People's attitudes towards finances improve, e.g. they become thriftier?
- People take some specific actions, e.g. make more retirement savings or pay down debt?
- People take action to improve their personal financial situation overall, e.g. a better balance of diversified savings and debt?
- Macroeconomic indicators improve, e.g. economic growth is stimulated as more people save more?
- The financial market becomes more efficient or the costs of regulation reduce as more financially literate consumers demand a better deal from product providers?

## Implications for New Zealand

New Zealand has more years of experience in providing public financial education than other countries. It has done so on a small budget: NZ$4.6m in 2005/6. Sorted has been used as a best-practice website for other countries, including the UK (NAO, 2007). The Retirement Commission's additional material to help New Zealanders with their response to KiwiSaver gives topical interest, highly relevant to the UK especially as it follows the auto-enrolled savings lead (O'Connell, 2007b).

New Zealand is one of three countries to have started national surveys on financial knowledge levels. It built on the experience from a similar survey in Australia. The UK's Financial Services Authority has taken – some may argue – a more sophisticated approach, but on the other hand, the New Zealand survey seems more practical and replicable.

So can New Zealand keep ahead? Financial education in schools has had perhaps less attention than in other countries, but it is getting established. New Zealand has not yet had a national strategy on financial literacy, but is developing one this year (Retirement Commission press release, 1 December 2006). 2007 is also a year for the retirement commissioner's Review of Retirement Income Policy, which this time includes an assessment of the effectiveness of financial education available to New Zealanders. This provides an opportunity for New Zealand to lead the way towards best practice evaluation.

Fox et al. (2005) suggested the use of a standard framework to improve evaluation technique. In concept the idea is very simple; what makes the difference is how it is tailored to each programme. The framework covers five questions, each of which should be considered for each programme to be evaluated, preferably while the programme is being designed:

1. Need: what objectives does the programme address?
2. Accountability: how much is the programme used and how much does it cost?
3. Fine-tuning: how could the programme be improved?
4. Micro-impact: how effective is the programme against its objectives?
5. Macro-impact: what impact is the programme having relative to the big policy picture?

These questions would suggest the measurements and methods to be used in evaluation. Examples of the use of the framework are in O'Connell (2007a). Not every financial education initiative would necessarily need to answer every question, and some could emphasise the areas critical to the particular goal of that programme. The framework provides a discipline to think through what is relevant and important for any particular programme, and to balance that with the cost of carrying out the evaluation. Different programmes would therefore have different sets of measures and use different methods to collect the data relevant and useful to them, but working within a standard framework would allow comparisons.

The development of such a framework was supported by the international financial education experts who reviewed the Retirement Commission research study. Many of the difficulties with evaluating the impact of financial education should become easier by following the framework:

- It provides an external discipline where practitioners may not be experts in evaluation. It should save 'reinventing the wheel'. By the discipline of thinking through each tier of the framework, those designing the programme have to be clear on what it aims to teach people or how it aims to change behaviour. This should temper any tendency to think that any financial education must be a 'good thing'.
- The framework encourages tailoring within a standard. Individual programmes or sites such as schools can tailor their evaluation as they tailor their financial education programme. But working within a consistent standard should mean that comparisons across programmes are still valid. The most and least effective practices – within a programme or between different national or international programmes – would then be identified on consistent measures. The comparison would suggest ideas for how to improve those initiatives performing less well, and to what benchmark level it is realistic to expect improvements.
- The same framework could be applied to evaluate other financial well-being initiatives. Ideally, this could help to compare the effectiveness of different initiatives or policies. For example, it could help to develop a better picture of the relative value for money of financial education, tax incentives and auto-enrolment.
- Consistently applying the framework across initiatives and over time would mean that robust evidence is available when the value-for-money questions are asked. The evidence base should help keep the attention of policy makers and funding agents.

## Conclusion

Despite much optimism, we simply do not yet know how effective financial education can be. Finding out is only going to become more important as more funding is directed towards improving 'financial literacy' or 'financial capability'. However, little evaluation is currently taking place and the evaluations made so far show mixed and inconclusive results. It is not clear whether this is a consequence of poor evaluation methods or poor programme design, or because financial education works patchily. But it does mean that a positive impact from financial education has not been unarguably proven; nor has a clear picture emerged of what works best and why.

Evaluation of financial education is inherently difficult, and the effect of any one programme can probably never be fully isolated. Nevertheless, evaluating the effectiveness of financial education can and should be improved. Further development of a standard framework would help. The difficulties of evaluation should not be used as an excuse not to evaluate. There may be some suspected benefits of financial education that can never be absolutely proven. But better evaluation of financial education programmes will improve our understanding of what helps people make good financial decisions.

Given New Zealand's history and international standing in financial education, it can take an international lead in developing techniques to understand better how effective financial education can be.

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**Alison O'Connell is an independent researcher and writer specialising in retirement income policy. Now based in New Zealand, she has worked as a UK actuary, strategy consultant and policy adviser at Westminster. She was most recently the founding director of the UK's Pensions Policy Institute. She can be contacted at alioc@dsl.pipex.com**

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