OCCASIONAL PAPER

No. 10

Improving Accountability: Setting the Scene

STATE SERVICES COMMISSION

Te Komihana O Ngā Tari Kāwanatanga

This paper was prepared as part of the State Services Commission's "Improving Accountability" project, and provides background information on the accountability system of the New Zealand Public Service. Key stakeholders were consulted to determine the key "problem areas" of the accountability system. These are outlined in the paper and have been crucial in developing an "Integrated Performance Systems" (outlined in Occasional Paper No. 11).

August 1999

First published in August 1999
by the State Services Commission,
Wellington, New Zealand

ISBN 0-478-08961-9

Contents

To obtain a copy of this paper contact:

Ken Martin
Publications Distribution
State Service Commission
P O Box 329
Wellington, NZ

telephone: +64 4 472 5639
facsimile: +64 4 473 5979
cell-phone: 025 446 243
email: ken.martin@ssc.govt.nz

or

visit the Commission's website: http://www.ssc.govt.nz
and access the paper through the homepage search facility

The State Services Commission welcomes any comments and suggestions you have about this paper. If you require further information about this paper please let us know. In both instances please contact:

Derek Gill, Branch Manager
Strategic Development Branch
State Services Commission

email: derek.gill@ssc.govt.nz facsimile: +64 4 495 6699

Introduction

A number of concerns have arisen about the operation of the accountability system in the New Zealand Public Service. These concerns have been expressed by a variety of stakeholders and relate to both the utility and proliferation of accountability documents and the ex-ante and ex-post processes surrounding them.

The problems inherent in the accountability system can be seen as manifestations of wider systemic problems. These are not necessarily fundamental design flaws in the New Zealand public management model itself, but are related to the way it has been implemented and evolved over time.

Accountability cannot be seen in a vacuum. It is an integral part of the performance management system. It is the 'check' side of that system – the means by which performance is specified, monitored and accounted for. Accountability is also an integral part of the delegation of responsibility – the quid pro quo for increased autonomy. The criticisms levelled at the current accountability system suggest that it is not encouraging the sort of behaviour the original architects of the New Zealand public management model envisaged. The criticisms indicate that it is not 'letting' or 'making' the managers manage.

It was on the basis of these concerns that the State Services Commission (SSC) embarked on a review of the accountability system – the *Improving Accountability* project. This project initially targeted accountability documents as the problem, and streamlining them as a potential solution. However, it was quickly realised that the documents were just the visible parts of a complex array of formal and informal systems and processes that make up the current accountability and performance management systems. Many of the concerns could not be attributed exclusively to the accountability system, but were manifestations of wider problems. The accountability system overlaps with the performance management system and the two are indistinguishable in some areas. For example, ex-ante accountability documentation is about establishing goals and objectives, an essential feature of performance management. But the accountability system imposes certain transaction costs, some of which are inevitable because 'public' accountability must satisfy the requirements for probity and transparency.

The accountability system in the core public sector management system consists of a series of accountability relationships[1], as follows:

- between the Executive (Ministers individually and collectively) and Parliament; and
- within the Executive, between:
  - individual Ministers and Cabinet (Ministers collectively);
  - departmental chief executives and their Ministers; and
  - employees and chief executives.

1 See (1994) *Review of the Working Party to the Advisory Group: Review of Accountability Requirements*, Working Party to the Advisory Group, p.10, for a full description.

The *Improving Accountability* project has focussed principally on the accountability relationship covered within the Executive, between departmental chief executives and their Ministers and to a lesser extent between the Executive and Parliament. This focus was derived from a significant amount of feedback from stakeholders about the operation of the accountability system around these relationships.

What stakeholders think about accountability arrangements

> "*The quid pro quo for additional autonomy has been more stringent accountability for performance…*"
>
> (PUMA/OECD, *Governance in Transition* (1995))

As this OECD report highlighted, the move away from input controls towards a results oriented and more managerial public service requires an effective accountability regime. Many commentators have questioned the extent to which the current NZ accountability regime, after over a decade in operation, is indeed effective.

In his review of the New Zealand public management model, Professor Allen Schick[2] focused on accountability as one of the most important elements of a results-based public management system. Schick applauded the extent to which the architects of the New Zealand reforms had taken accountability seriously. But he had concerns about how accountability had been built into the system. For example:

> *"basing accountability upon the ex-ante specification of performance can have unanticipated consequences, as when unspecified matters escape accountability"*; and
>
> whereas in other jurisdictions "*certain actions and outcomes fall between the cracks of the accountability system because managers are sometimes unsure of what they are responsible for, in New Zealand, they sometimes fall between the cracks because managers know precisely what they are responsible for*."

Schick is not alone in his criticisms. In various forums, stakeholders – those who have to work under current accountability arrangements – have also expressed their concerns about the operation of the accountability system and how it impacts on their roles and functions. The following is a snapshot of stakeholder concerns.

Parliament

Parliament's Finance and Expenditure Committee in its inquiry into departmental reporting (1988) raised concerns about both ex-ante and ex-post accountability information. It asked for more, essentially non-financial, ex-post information to be included in departmental annual reports and expressed dissatisfaction with the ex-ante Departmental Forecast Report, which it recommended be abolished. The

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

Government's response was to action the former recommendation but not the latter, pending a wider review of ex-ante documentation[3].

Ministers

Ministers have suggested that accountability documentation is difficult to use and they often do not have the time to read, let alone digest, the various information sets. As a result they have trouble getting an overall picture of a department's performance.

Departments

Interviews conducted by the SSC with corporate planners indicated that departments feel the weight of complying with the multitude of accountability requirements and their lack of integration. Key points from these interviews were:

- concern regarding duplication, a lack of clarity around the purpose of various requirements, and a tendency to focus on activity measures rather than the achievement of longer term goals;
- complaints that the accountability regime is inhibiting rather than encouraging high performance; and
- questions about the behaviour of central agencies in demanding greater and greater specification of their activities, and whether those central agencies – in particular the Treasury and the SSC – really have the right information or capability to judge their performance.

Central agencies

Central agencies themselves are uncomfortable about the burden on departments, about whether the right information and behaviour is being generated by current accountability arrangements, and about their own ability to assure Ministers, Parliament and the public that public resources are being well managed and directed towards the right ends.

These concerns have been expressed in:

- the 1994 report of the Working Party to the Advisory Group on the Review of Accountability Requirements[4];
- its follow up[5]; and
- an SSC report *Assessment of the State of the New Zealand Public Service*[6], which recommended a more mature system that allowed for more complex judgements rather than the current heavy emphasis on the measurable.

---

3 Finance and Expenditure Committee, *Inquiry into departmental reporting to Parliament*, Report of the Finance and Expenditure Committee, Wellington, November 1987.

4 SSC, *Review of Accountability requirements: Report of the Working Party to the Advisory Group*, Wellington, 1994.

5 SSC, *Review of Accountability Requirements: Report of Recommendations and Compliance with Protocols*, Wellington, 1995.

Concerns are also reflected in the Treasury's current work on ex-ante accountability documentation, which suggests that there are some information gaps around ownership and some variability in the quality of purchase information.

The Office of the Controller and Auditor General suggested that Parliament should receive more information on the Government's desired outcomes and the extent to which they are being achieved; on organisational capability; on ownership-related issues; on how the Executive's agents assess and manage risk; and on how the Executive proposes to use imprest supply. Most of this information is absent from current accountability documents and information requirements.

This is not a comprehensive account of criticisms levelled at current accountability arrangements, nor does it document the many attributes of our current system. But it shows that the system is not in peak form and suggests that a closer look at the reasons why is warranted. To do this, it is necessary to get some clarity around what is meant by 'accountability'.

What is accountability?

The Oxford English Dictionary defines accountability as *"the quality of being accountable; liability to give account of, and answer for, discharge of duties or conduct; responsibility, amenableness"*. This definition suggests that accountability is a complex concept that covers a variety of different notions. Not surprisingly, attempting to find a simple, working definition of accountability within a public service context has proven to be difficult. However contemporary public management – indeed, public office – is viewed, it involves many roles and tasks with differing risks, uncertainties, and diverse and often conflicting expectations.

The duties and obligations of public officials have elsewhere[7] been described as being: to the law; to the *public interest*; to the public; to groups outside the Public Service; to efficiency; to equity and justice; to colleagues; to former public servants; and so forth. All these duties imply an acceptance that there are external reference points that must be taken into consideration when choices and decisions are made in a public role. Accountability goes beyond, for example, only being accountable to the law, or to the government of the day, or to a superior, as critical as these are to understanding accountability in the public sector.

Trying to unpack the complexity is important, not only for public managers trying to determine what is expected of them, but also for those to whom they are answerable, including Ministers and the public. The following is an attempt at such an unpacking.

---

6 SSC, *Assessment of the State of the New Zealand Public Service*, Occasional Paper No. 1, State Services Commission, Wellington, 1998, p.25.

7 SSC, *Principles, Conventions and Practice Guidance Series*. State Services Commission, 1995; John Martin, *Public Service and the Public Servant: Administrative Practice in a Time of Change*, 1991.

Accountability: the theory

Accountability underpins representative democracy

Representative democracy is the key to understanding accountability in the sphere of government and public service. The concept of representative government and representative democracy signifies government by the people through their representatives. As trustees of the public, those representatives are accountable to the public for the exercise of sovereign power. This is captured by Stewart[8] as:

> *"In our society, the exercise of governmental power is legitimated by the requirements of public accountability. Those who exercise the power of government have to be publicly accountable for their action. It is on that basis that the very substantial powers of government are accepted. It is public accountability that is relied upon to transform arbitrary power into the legitimate exercise of governmental power."*

As such, accountability is a fetter on discretion and a control on the arbitrary use of power.

Accounting for delegated authority and responsibility

Accountability derives from the delegation of responsibility for a task, function or role. Associated with delegation is some discretion as to how the responsibility will be exercised and a liability to account for how that responsibility or duty is carried out.[9] Reporting is the set of arrangements for providing information (an account) of the exercise of responsibilities. One party is accountable to another in the sensethat one of the parties has the right to call upon the other to give an account of how he/she has discharged assigned responsibilities. This involves explaining, and if necessary justifying, what has been done, what has not been done, what is currently being done and what is planned. It puts an onus on those reporting to keep good records, so as to be ready to explain.

Reporting and assessment: 'providing an account' of delegated responsibility

Reporting, as the provision of information, occurs in a number of forms, informal and formal, published and non-published, public and private. The act of providing information allows those delegating responsibility to assess whether the responsibilities have been exercised in a manner consistent with their intended wishes, needs and expectations. Those who delegate responsibility do so with the authority to assess the account and make a response. Such assessment may be undertaken in the form of an evaluation measured against some standard or expectation, or it may be in the form of a judgement reached from other sources. An assessment usually cannot cover the full gamut of responsibility, so will typically focus upon particular dimensions. For example, an assessment may be made on whether funds and powers are used properly and in the manner authorised (probity); have been used efficiently

---

8 D. Stewart, "The Role of Information in Public Accountability" in A. Hopwood and C. Tomkins (eds.) *Issues in Public Sector Accounting*, Oxford, Philip Allen, 1984.

9 G. Jones, *Responsibility in Government*, London School of Economics, 1974.

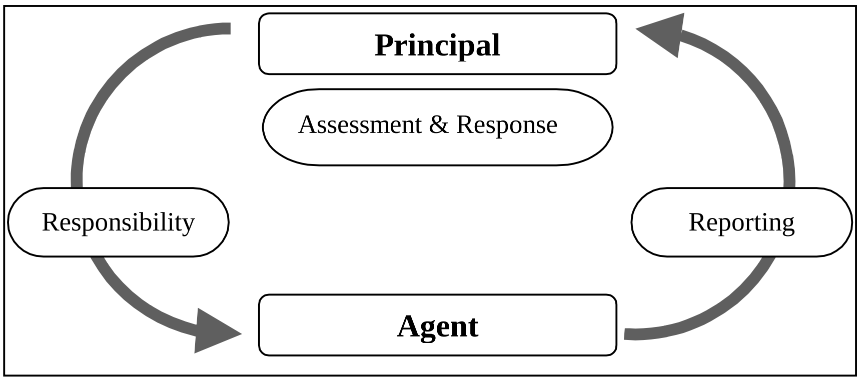
(efficiency); are achieving the stated objectives (effectiveness); and are being administered in an equitable manner (fairness).

Response: 'holding an agent accountable' for the exercise of delegated responsibility

A response may follow the assessment of the exercise of delegated responsibility. A response may, for example, include imposing rewards and sanctions, or requiring an act of atonement, or making a demand to remedy faults or to provide reassurance. The nature of the response may be conditioned by such things as political calculation and public opinion. Except in the most black and white cases, the response is made on the basis of a myriad of factors and cannot be preordained. The response may not necessarily be directed specifically at the person or institution responsible, but might lead to a change in procedures – either formal or informal – to ensure that an incident or occurrence does not happen in the future.

Public accountability: a summary

Public accountability derives from responsibility, but is not synonymous with it. In abstract terms it requires a person or institution with delegated responsibility – duties and functions – to give an account – explain fully and accurately – to those in authority over them for the exercise of those responsibilities.[10] Based upon this account and other information sources, an assessment is made by (or on behalf of) those in authority on the appropriate discharge of those responsibilities. The assessment occurs in tandem with the capacity for a response (which might be inaction). The assessment and response elements are generally referred to as *holding to account*. The simple diagram of an accountability relationship depicted below uses the terms 'principal' and 'agent'.



[10] SSC, *Responsibility & Accountability: Standards Expected of Public Service Chief Executives – Key Documents*, Wellington, 1997, p.8.

Accountability: the practice

Contractualism narrows accountability

In practice, the understanding of accountability in the Public Service has been conditioned by the New Zealand public management model and its accent on contractualism. In an effort to clarify responsibility and, in turn, accountability, contractual[11] arrangements such as performance agreements and purchase agreements have been used to specify the nature of assigned responsibilities. This has led to the impression, albeit false, that people are only accountable for the things that are specified in 'contracts', or for what can be measured, and indeed, over which they have some control. In a commentary on the New Zealand public management system, Professor Schick noted that "*accountability revolves around the ex-ante specification of both financial conditions and outputs and the ex-post reporting of results*". He implied that things do not get done because they have not been explicitly specified as responsibilities.

Despite, or perhaps because of, the substantial effort to clarify responsibility and accountability through better specification, the New Zealand public management system has been criticised for having a particularly narrow view of accountability. The narrow view is what Schick was criticising when he referred to the risk of things 'falling through the cracks' because they have not been specified. This has led to the notion of accountability as only the obverse side of specified responsibility or assigned duties. In this context, where cracks or gaps in actions are revealed, the obvious approach is simply to specify a new 'expectation' on departments or chief executives, or demand more detailed specification of things that have already been specified. In this paradigm, to get better accountability, it is necessary to specify in more detail and more often. Subsequently, it is necessary to account for those things specified, ex-post. Having to report on or 'account for' actions is seen as one of the main 'incentives' for good performance. However, rather than providing an incentive for good performance, this narrow view of accountability might have instead turned accountability into an agent of control. Clearly, accountability will always include some aspect of control (on the arbitrary use of power) but the trick is to have an accountability system that allows for risk taking and innovation, and frees managers to actually manage.

A broader notion of accountability: towards responsibility

Accountability in a public service context cannot be reduced to a set of legal liabilities deriving from statute law, and mostly concerned with fiscal responsibility; i.e. accounting for the proper use of public funds and resources. Accounting for such powers and authority is an integral part of public management, indeed, of good government. But such accounting does not represent the sum of obligations for the responsible public servant.

11 Note: the term 'contract' is used in an economic sense as, *an agreement between two or more parties that something shall be done or forborne by one or both*, as opposed to a legal sense of a contract enforceable by law.

The system of accountability should be seen as multi-centric. While there may be a primary accountability relationship at any one point in time, that relationship may have dimensions of accountability to different authorities, for different purposes, to different degrees and in terms of different, though mutually complementary standards.

For the purposes of this project, the starting point for accountability has been the notion of responsibility. The State Services Commissioner outlines this starting point in relation in a letter sent to all chief executives on their appointment and reappointment:

> *"New Zealand's public management arrangements assign responsibilities – duties and functions – to chief executives and require the holders of these offices to give an account – explain fully and accurately – to those in authority over them for the exercise of those responsibilities."*[12]

The dimensions of 'responsibility' as expressed by the Commissioner are further defined below. The description of responsibility promoted by the Commissioner suggests a very broad definition of responsibility and corresponding accountability. The question to ask is whether this definition is supported or undermined by the current systems, processes and mechanisms that make up our accountability system. The following section describes the accountability system for the New Zealand Public Service and how it has evolved over time.

New Zealand public management model and accountability: systems evolution

One of the principle drivers of New Zealand public management reforms was to clarify responsibility and corresponding accountability. In the publication, *Government Management*, the Treasury noted that:

> *"(T)he current system creates confusion as to managerial responsibility which in turn serves to reduce accountability."*[13]

Scott[14] provides a succinct summary of some of the concerns, which included:

- objectives for departments were not clearly specified;
- the respective responsibilities of politicians and civil servants were confused, so that lines of accountability and responsibility were never clear;
- the control systems administered by central agencies curtailed freedom to manage effectively, generally destroying incentives to perform;
- there were few sanctions for poor performance; and

---

12 SSC, 1997, p.8.

13 The Treasury, *Government Management: Brief to the Incoming Government 1987, Volume 1*, New Zealand, 1987, p.59.

14 Graham Scott, *Government Reform in New Zealand*, Occasional Paper No. 140, International Monetary Fund, Washington DC, 1996, pp.30-31

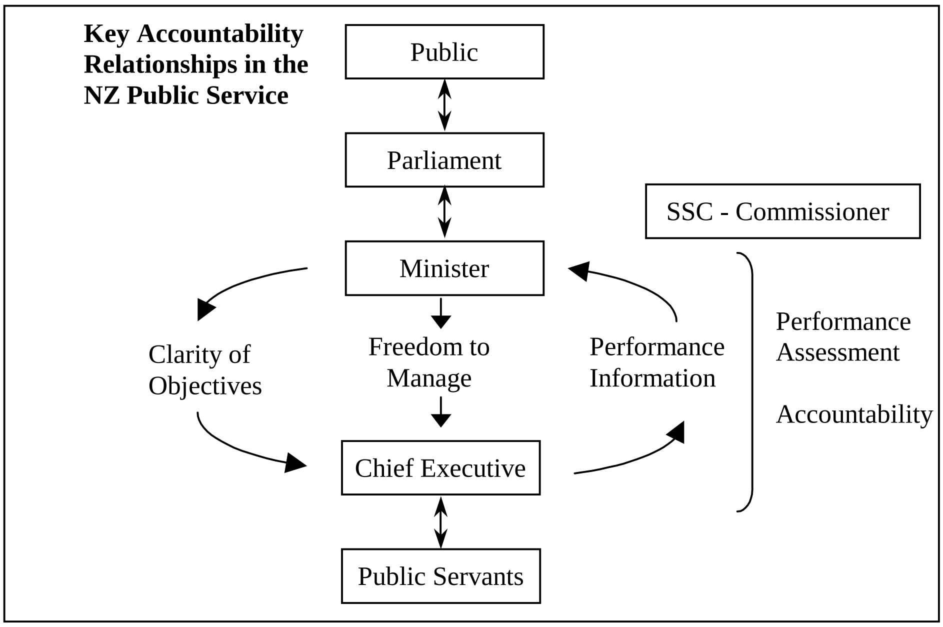
- Ministers were making inappropriate decisions about the internal management of departments.

The public management reforms implemented in the 1980s were founded on five related principles.[15] These were:

- *clarity of objectives* – clear specification of the objectives managers are required to achieve is a necessary condition. These should be stated as measurable indicators of individual performance. Clear specification also means that objectives should not conflict;
- *freedom to manage* – managers, at all levels, should be given the power to achieve the objectives specified. Managers will then be able to make resource allocation to enable the most efficient achievement of objectives;
- *accountability* – in return for the freedom to manage, managers must be accountable for the decisions they make. This will provide the necessary sanctions and incentives to modify behaviour and ensure that managers meet their objectives;
- *adequate information flows* – the accountability systems must provide information that enables the assessment of the quality of managers' resource decisions; and
- *effective assessment of performance* – managers must be assessed on how well they met their objectives and any deficiencies due to poor management revealed and sanctioned.

The following logic was employed to show how those five conditions were to result in increased public service efficiency and effectiveness. If managers are clear about what is expected of them *(clarity of objectives)* and are given the power to achieve their specified objectives *(freedom to manage)* and then made accountable for achieving the objectives by being judged *(accountability)*, with quality information *(adequate information flows)* on how well they met their stated objectives *(effective assessment of performance)*, managers will make efficient resource allocation decisions and obtain objectives in the most efficient way. A depiction of the relationships this logic prescribes is provided below:

15 Government Mangement, op cit.



In short, the public management system envisaged by the architects[16] of the reforms sought to clarify responsibility in the system, in particular, to increase the responsibility of department heads for managing their departments and to increase their accountability for the exercise of that responsibility. Chief executives would be contracted to produce the specified outputs and have control over the resources required to produce those outputs. Ministers, for their part, would be responsible for clarifying the outcomes their government sought and for purchasing outputs to achieve those outcomes.

Since the late 1980s, there has been significant development and evolution of the public management system, largely guided by the principles expressed above. Particular emphasis has been placed on:

- clarifying chief executive responsibility; and
- ensuring that there is adequate information to enable effective assessments of chief executive performance, and to hold chief executives accountable for the decisions they make.

A brief overview of the system and its evolution in those two areas is provided below.

Clarifying responsibility and accountability

Responsibilities of Ministers and chief executives are derived from a number of sources including legislation, constitutional convention, common law, and Cabinet rules as set out in the Cabinet Office Manual. The State Sector Act 1988, and the Public Finance Act 1989 form the legislative foundation for accountability by focusing on the responsibilities of chief executives and, to a lesser extent, of Ministers. Responsibility and accountability is further underpinned by the Official

16 Ibid.

Information Act 1982, which is based on the notion that good information and access to it is the basis of good accountability. The Act's stated purposes are:

> "*…consistently with the principle of the Executive Government's responsibility to Parliament,—*
>
> *(a) To increase progressively the availability of official information to the people of New Zealand in order-*
> *(i) To enable their more effective participation in the making and administration of laws and policies; and*
> *(ii) To promote the accountability of Ministers of the Crown and officials, and thereby to enhance respect for the law and to promote the good government of New Zealand.*" (s.4)

Ministerial responsibility and accountability

Ministerial responsibility arises out of a mixture of constitutional convention, law, and political and personal judgements. It has been described as "*illustrative of continuously evolving constitutional conventions*".[17] A Minister's responsibility and accountability in relation to his or her department is summarised in the Cabinet Office Manual as follows:

> "2.55 *Ministers are accountable to Parliament for ensuring that the departments for which they are responsible carry out their functions properly and efficiently. On occasion, this may require a Minister to account for the actions of a department when errors are made, even when the Minister had no knowledge of or involvement in those actions."*

In practice, Ministers undertake two types of roles in relation to departments. The Treasury's guideline publication *Putting it Together*[18] describes these as Responsible Ministers and Vote Ministers. A department has one Responsible Minister but may have more than one Vote Minister.

> ***Responsible Minister –*** *"Each Department has a responsible Minister who agrees specific ownership priorities with the chief executive. The Responsible Minister, on behalf of the Government and the people of New Zealand, represents the owner of the capital invested in the department. Responsible Ministers are concerned with the ownership performance in relation to departments."*
>
> ***Vote Minister –*** *"A Vote Minister seeks appropriation from Parliament to purchase classes of outputs produced by a department or other supplier, or otherwise incur expenses… The Minister is, in this role, requesting Parliament to vote resources."*

---

17 M. Palmer, "The Conventional Wisdom of Ministerial Responsibility in New Zealand" in *Public Law in New Zealand: Cases, Materials, Commentary and Questions*, eds. Chen and Palmer, Oxford University Press, Auckland, 1993.

18 The Treasury, *Putting it Together: An explanatory guide to the New Zealand public sector financial management system*, The Treasury, Wellington, 1996, pp.15–16.

Chief executive responsibility and accountability

The responsibilities (and also the rights, duties, and powers) of chief executives are explicitly expressed in statute, though conditioned to some extent by conventions such as that concerning the political neutrality of officials. The State Sector Act prescribes the principal responsibilities of chief executives as follows:

> *"**32**. **Principal responsibilities –** The chief executive of a Department shall be responsible to the appropriate Minister for -*
> *(a) The carrying out of the functions and duties of the Department (including those imposed by Act or by the policies of the Government); and*
> *(b) The tendering of advice to the appropriate Minister and other Ministers of the Crown; and*
> *(c) The general conduct of the Department; and*
> *(d) The efficient, effective, and economical management of the activities of the Department."*

The Act further provides:

> *"(2) The chief executive of a Department shall have the powers necessary to carry out the functions, responsibilities, and duties imposed on that chief executive by or under this Act ... [or] ... on that chief executive or that Department by or under any other Act."* (s.34)
>
> and
>
> *"(2) Unless expressly provided to the contrary in this Act, the chief executive shall have all the rights, duties, and powers of an employer in respect of the persons employed in the Department for which the chief executive is responsible."* (s.59)

Chief executive responsibility and accountability was further addressed in a project undertaken by the State Services Commissioner to clarify "*standards expected of Public Service chief executives*". A product of this project was a letter that is sent to all chief executives on appointment and reappointment, outlining standards of personal and professional behaviour. Particular attention was drawn to chief executive responsibility and accountability in an annex to that letter. The Commissioner defined accountability in the following manner:

> *"In our system of Government, someone who accepts responsibility must explain how they have exercised that responsibility. That, therefore, is the definition of accountability: the requirement for chief executives when called upon by the Commissioner or the Minister to explain fully and accurately all or any of their own or their department's performance."*[19]

[19] SSC, *Responsibility & Accountability: Standards Expected of Public Service Chief Executives – Key Documents*, Wellington, 1997.

The Commissioner noted that the statutory provisions of the State Sector Act makes the chief executive responsible and therefore accountable for the management of the department without exception or qualification.

The Commissioner also uses the notion of ‘duty of care’ to capture a broad notion of accountability, in stating that:

> *“…each chief executive, when exercising powers or functions as a chief executive, must do so with the care, diligence and skill that a reasonable chief executive would exercise in the same circumstances…Being accountable for such minimum requirements as are proposed through statute and contract law therefore, while necessary, is not sufficient."*[20]

Comment

Quite clearly Ministerial and chief executive responsibilities are broad and cannot be adequately captured in documentation, hence the use of the concept of *duty of care*. Over time, reporting requirements have sought to capture more and better information, to provide a basis for better assessing whether Ministers and chief executives have appropriately exercised their responsibilities.

Information: reporting requirements

As the public management system evolved, the exact nature of responsibilities of stakeholders in the system have developed and in many cases been explicitly specified. In ex-ante documentation, in particular, there has been an increasing move to specify chief executive responsibilities and accountabilities through such mechanisms as the purchase agreements and performance agreements. Central agencies and Ministers have sought to specify what particular responsibilities chief executives will be assessed against, and the types of information to be supplied to allow this assessment to take place.

The formal accountability documentation has become increasingly complex, as further and more detailed specifications of responsibilities or requirements not previously considered have been added. This accretion is depicted in the table below, which documents some of the 'add-ons' to the accountability system since it was first introduced:

---

[20] Ibid, p.9

Date	Document	Timing	Source	Reason
1992	Purchase Agreement	ex-ante	1992 Working Party on Output Definition ECC (92) M 50/2	Need to have a record of the purchases agreed between a Minister and the CE so that delivery can be assessed.
1992	Purchase Agreement Reporting	ex-post	Same as purchase	Need for departments to provide an account of the delivery of specified outputs.
1993	CEPA	ex-ante	Cabinet Circular	Formal requirement that all CEs have an agreement that clearly defines what the Minister expects from the CE. **Note:** Some CE agreements were in place before 1993 but not as an explicit requirement.
1994	DFR	ex-ante	Section 34a of the PFA was inserted 1 July 1994 & Treasury instructions	Need to reflect a departmental orientation showing how Vote and Responsible Ministers' purchase and ownership interests will be satisfied. **Note:** specifically related to fiscal reporting.
1994	KRAs in CEPA	ex-ante	PM wrote to Commissioner, Commissioner wrote to CEs	Need to focus CEs on the Government's medium term strategy – address need for better strategic coordination and coherence across the Government's priority areas.
1995/ 1996	Reporting against CEPA & SSC Expectations Letter	ex-post	Cabinet Circular (CAB (95) M24/5Ci)	Need to keep Ministers informed on exceptions (i.e. where performance varies from specified standards and expectation). Used to inform Commissioner's assessment of CE and departmental performance.
1996	Dept SBPs	ex-ante	SSC Expectations letter	Need to provide background to the department's business – financial and resource management strategies.
1997	Capital Bid SBPs	ex-ante	Cabinet Circular CO (97) 15	Capital is a scarce resource, hence additional capital investment needs to be considered in the context of the long-term purchase requirements of the Crown and the optimal output mix.
Central Agency Documentation				
1994	Treasury Relationship letter	ex-ante	1994 Accountability Review	Principle that departments be informed in advance of the scope of their reporting obligations.
1994	Treasury Financial Feedback letter	ex-post	Treasury Instructions	Formal evaluation of the departmental performance as identified in the Relationship letter.
1994	SSC Expectations letter	ex-ante	1994 Accountability Review	Principle that departments be informed in advance of the scope of their reporting obligations.

Not only are there more documents, but the contents of the documents have also changed. Generally, these changes have increased the amount of information required. For example, in 1989 there were approximately 20 'information reporting' requirements for departments. In 1994/95 there were 41, and in 1997/98 there were approximately 50. Some of these requirements are straightforward requests; others involve substantial time and effort. The net result of these 'add-ons' is a complex plethora of documents that attempt to define in detail what is required of chief executives and Departments.

Information for assessment

The principal role of information in the system is to allow stakeholders to make an assessment on the efficient and effective exercise of assigned or delegated responsibility. As noted previously, constitutionally, Ministers are accountable to Parliament for the department they are responsible for, and are collectively responsible for the success or failure of Government policies. Individual Ministers must, when called upon to do so, give an account to Parliament of what happens in their departments and for the related use of public money. The ability of Ministers to give such an account is facilitated by the roles and responsibilities of the central agencies and the Audit Office.

- *State Services Commissioner* – the State Services Commissioner provides assurance to the Government that the State sector has the capability, in terms of people, information, management structures and systems to carry out the business of government. The two principal roles of the Commissioner are provided for under section 6(b) of the State Sector Act: "*To review the performance of each Department, including the discharge by the chief executive of his or her functions*."
- *The Treasury* – while a significant part of the Treasury's work involves the preparation of the economic content of the Government's annual budget and other operational financial functions, Treasury has two main roles in the accountability system: it monitors and reports on department financial management; and it maintains a 'second opinion' function on issues that have financial implications.
- *Department of the Prime Minister and Cabinet (DPMC)* – DPMC provides advice to the Prime Minister on policy and constitutional issues. It ensures that processes are in place to enable strategic and cross-portfolio cooperation and coordination. DPMC plays an informal role in the accountability system.
- *Office of the Controller and Auditor-General* – a key function of the Audit Office is to assure the Government of the validity of each department's accountability reports. Normally, this assurance is provided in the form of an audit opinion on whether the accountability report complies with reporting standards (e.g. Generally Accepted Accounting Practice), and reflects a true and fair view of the operations and performance of the entity. It scrutinises not only the accountability reports themselves but also the various activities of each department (in terms of efficiency and effectiveness) and the accounting and other information systems generating material for the accountability reports.

Comment

Indications are that information requirements of central agencies have increased as information gaps have been identified. For example, the SSC's Letter of Expectations sent to chief executives listed five expectations in 1995/96, but 12 in 1997/98. The growth in expectations has been matched by incremental growth in assessment. In the last two years, Maori responsiveness and Departmental Integrity have been added to the SSC's Departmental Performance Assessment (DPA). The Treasury Letter of Expectation covering financial management has also added more information requirements since its inception.

Most recently, the Government's response to the Finance and Expenditure Committee inquiry into departmental reporting to Parliament recommended that departments set out the relationship between key result areas (KRAs) and the Government's strategic result areas and desired outcomes. The Government also requested that chief executives account for the stewardship of the Government's ownership interest in their departments, to allow select committees to examine the performance of departments from an ownership perspective.

The pattern of accretion is being driven by increasing information requirements to enable better assessment of performance. The accretion of documents, and how they have been added, has resulted in a system that is increasingly complex, and also means that similar information is requested in a number of different places. As already mentioned, an indication of the effect of this complexity was demonstrated in preliminary findings from the Treasury's work on ex-ante accountability documents – that Ministers say they often do not have the time to read, let alone digest, the various information sets. As a result, they have trouble getting an overall picture of a department's performance.

Each of these increments, while made for good reasons, adds to the human and financial costs that face both the assessed and the assessors within the system. While stakeholders have more information from which to assess the exercise of responsibility, the most worrying costs are the indications of a growing atmosphere of compliant behaviour and the diminished notion of responsibility.

Recently added elements largely reflect attempts to capture ownership or collective interests, as a means of redressing the focus on purchase information. This information gap was clearly identified in the *1994 Review of Accountability Requirements*. The review concluded that there were no fundamental problems with the underlying elements of the accountability system, but there were significant gaps in information on ownership. This gap remains, despite significant accretion of information requests. It has been highlighted in recent reports from the SSC and forms the basis for the SSC's project on capability.

Does accretion and messiness signal fundamental flaws?

The *Improving Accountability* project has built upon the extensive work undertaken by the *1994 Review of Accountability*. The analysis undertaken by the *Improving Accountability* project suggests that the accountability system has continued to evolve since 1994, and it is the nature of this evolution that has raised concerns with stakeholders. The story of accretion indicates a system evolving to meet identified needs and gaps. It does not necessarily indicate fundamental flaws, although the changes may have biased the instruments of accountability.

The objective of the project, then, was to enhance the current system, rather than to go back to first principles and question the fundamentals of the public management system. Given the concerns of stakeholders, the main focus of the project was to examine the way in which information requirements have been added to the system and why the information was added. An extensive review of the documentation was undertaken, setting out the mandate, purpose and requirements of each.

Problem definition

The stakeholders' concerns, and the analysis undertaken for this project, suggest that three specific areas of concern need to be addressed. These are:

- *complexity and duplication* – the current accountability system is highly complex, as a result of incremental accretions over time. Information is duplicated, and internal planning and external reporting are poorly aligned. It is difficult for Ministers and Parliament to get an overview of the health and performance of a department. Rather than the accountability system adapting to the growing maturity of departments, the level of detail and control has grown;
- *information gaps* – important information is not captured by the formal documentation, despite additional requirements over the past few years. Capability is largely ignored, strategic alignment is weak, core business is under emphasised and performance indicators for non-financial information are lacking; and
- *drivers of behaviour* – the accountability system demotivates chief executives. Incentives for Ministers are to focus on short-term deliverables; central agencies do not always know the business of departments and consequently rely on compliance reporting without using adequate judgement.

Complexity and duplication

As documents and information requirements have been added, the accountability system has become increasingly complex and has subsequently lost clarity. This may in part be due to:

- the way in which departments prepare the documents (some departments concentrate their efforts on different documents);
- how central agencies provide feedback on the documents (different messages about what documents or information is required); or

- how particular Ministers like to operate (some Ministers require a very detailed purchase agreement while others prefer to focus upon aggregated documents such as a strategic business plan).

In interviews and focus groups organised by the SSC, users of the documents – such as Ministers, central agencies and corporate planners – have commented that it is often necessary to go to three or four documents to get a comprehensive picture of the organisation, and even then it is difficult to get the whole picture. This has led to some departments preparing a public relations type overview document to sit over the top of, and provide context for, the existing array of documents produced to meet external accountability requirements.

Contributing to the complexity has been the addition of information requirements and the evolution of documents without a clear purpose and function. This has been challenged by the recent Finance and Expenditure Committee's recommendation to abolish the Departmental Forecast Reports. The Committee argued that the information contained quickly became outdated and irrelevant, and duplicated information found elsewhere.[21]

It has been suggested that much of the messiness in the system is unavoidable. Our analysis indicates that, while it is not possible to create a perfectly seamless system, it is possible to design a more user-friendly system. This would reduce the transaction costs associated with preparing multiple documents with overlapping dimensions, while maintaining the proper purpose of the reporting regime. An example of the latter is where a department may describe its strategic direction in all or some of the CEPA, the DFR, the purchase agreement and the strategic business plan. While it may be possible to argue that transaction costs should be minimal if the same information is used in different places, corporate planners indicated that substantial effort is required to massage the information to fit different documents. They find this frustrating, and it involves substantial amounts of time and energy.

As the principal generators of the documentation, corporate planners made a plea for one set of expectations from central agencies and some integration of the reporting documentation to enable the department's business to be described as a whole, as opposed to partial descriptions of seemingly unrelated parts. This was raised in relation to the separation of financial information in the DFR, purchase information in the purchase agreements, key objectives in the chief executive performance agreement and strategy in strategic business plans.

A number of corporate planners, chief executives and central agency staff argue that an over-emphasis on specification leads to rewards for compliance, rather than responsibility and responsiveness. Tight output specification, very strict financial control, detailed specification of reporting, and the use of performance targets have been useful disciplines to enhance the focus and performance of organisations, but may, in some cases, have inhibited performance. While this concern was expressed frequently enough to warrant its mention, it is difficult to validate except by a detailed case analysis.

---

21 Cabinet Finance and Expenditure Committee (1997), p.5.

Adding to the complexity of the system as a whole, and making it difficult for central agencies and Ministers collectively to get a handle on overall Public Service performance, is the fact that different departments put different information in different documents. To explain, corporate and strategic planners noted that they often chose one key document and associated process to drive the department's business. This could be the purchase agreement, the department's strategic business plan, or the departmental forecast report. Given this difference in focus and the varying effort put into different documents, it is difficult to assess departments on the basis of any given document.

Information gaps

While there have been improvements in the amount and quality of accountability information, significant gaps remain. The gaps are predominantly in the area of ownership and capability, with additional concerns around strategic alignment, core business reporting and performance related information.

Ownership and capability

The public management system focuses predominantly on the short-term delivery of goods and services through the Estimates and purchase agreement processes. However, the ability to deliver in the long term relies on the maintenance of the Government's ownership interest, which is represented in the following requirements:

- strategic alignment;
- integrity of the Public Service;
- assurance of future capability; and
- cost effectiveness over the long run.[22]

The evolving public management system has failed to focus on this ownership interest to the same extent as it has on the purchase interest. Attempts to address this were made in 1994 when changes were made to the CEPA.[23] The purchase interest was to be represented in purchase agreements and a comparable ownership agreement was to represent the ownership interest.

The Treasury undertook work in the area of ownership at this time. It noted that, in contrast to the purchase interest, the Government's ownership interest is addressed in an ad hoc fashion that can give rise to ineffective management of that interest. This work, and recommendations from the *1994 Review of Accountability Requirements*, led to the establishment, in 1995, of an Interdepartmental Working Group on Ownership.

22 SSC, *Taking Care of Tomorrow, Today: A Discussion of the Government's Ownership Interest*, Wellington, 1995.

23 Cabinet Strategy Committee (49) 13.

The conclusions of the working group indicated that the tools for managing ownership already exist, but there is a need to be smarter and more strategic in the ways these tools are used. While this may largely be the case for strategic alignment, and the integrity of the Public Service, the work on capability undertaken by the SSC and experiences of Output Pricing Reviews suggest that the tool kit may be deficient in dealing with the assurance of future capability and long-run cost effectiveness.

The public management model assumes that the price the Minister ‘pays’ for the outputs is based upon a consideration of the costs of maintaining current capability and building future capability where necessary. The need for Output Pricing Reviews and concerns expressed by chief executives and the Minister of State Services suggest that a robust consideration of the long-run costs of output delivery may not be occurring. Recent work undertaken by the SSC concluded that:

> *“in the absence of substantive evidence on capability in core government, on productivity changes, and clear understanding of output levels or demand for core government goods and services, there is a risk that continued real reductions in core government expenditure will undermine capability."*[24]

There is a need for more explicit assurance that capability and associated long-run cost effectiveness is being addressed at a departmental level and considered by Ministers (both Responsible Ministers and Vote Ministers). While these issues cannot be addressed solely through the accountability system, there is a need to better incorporate ownership and purchase type information into a single coherent ex-ante and ex-post process.

Strategic alignment

The work that the SSC undertook on SRA networks highlighted that departments are poor at explaining (ex-ante) the logic of how outputs contribute to Government’s desired outcomes (goals and Strategic Priorities), and at evaluating (ex-post) how well their outputs contributed to these outcomes. There are few incentives for departments to provide robust information on the relationship of their outputs to the desired outcomes, or on the relationship that these outputs have to other portfolios. While the SRA Networks and Ministerial Teams are addressing these issues, they do require mention here as an area for on-going work.

Core business

Another information gap in the published documentation[25] is a lack of recognition of the core business of the department. While the strategic management system is represented by strategic priorities, and key result areas focus a department on the government’s key priorities, there is little emphasis placed upon the core business of the department. Usually, it is this core business that is the main reason for the

---

24 SSC, *Strengthening Strategic Management: Summary of Fiscal Modelling Work*, Occasional Paper No. 4, Wellington, 1998, p.5.

25 The core business of departments is often expressly dealt with in purchase agreements but these are not published.

organisation; it consumes the majority of resources, yet is often under represented in the documentation. There needs to be scope in the formal documentation to address the core business of the department and its key objectives, and to report on performance against these objectives in ex-post reporting.

Performance indicators and qualitative assessments

There is also scope for more comprehensive performance indicators and qualitative judgements about effectiveness. Departments complain that complex outputs are frequently reduced to what can be *quantifiably measured*, rather than *qualitatively assessed.* For policy outputs, for example, the performance indicators of quantity, timeliness and cost overshadow the remaining indicator of quality. This problem was highlighted by Schick[26], who noted that:

> *"the New Zealand system is still geared more to the short-term production of outputs than planning for the long haul, and to account for what has been produced than to evaluate progress in achieving major policy objectives."*

The Audit Office has recently indicated that there is a need for significant work in developing appropriate performance indicators.[27]

Drivers of behaviour

The contractual model employed in the Public Service is premised on the foundation that Ministers as principals *can and will set clear objectives* for their agents to follow, and that they will take responsibility for specifying these objectives as outcomes to be achieved, and for ensuring evaluation of their achievement. The contract that a chief executive signs for the delivery of outputs (the purchase agreement) draws on a causal link between these outputs and the specified outcomes. If the outcomes are not clear, then the chief executive's contributions towards them will be unclear as well, or be consciously partial and address only part of the outcome.

Ministerial incentives

The evolution of the system has been directed at increasing clarity about what a chief executive is accountable for and specifying this in a detailed manner. While the public management system is founded on the notion that Ministers are responsible for outcomes, the system has not placed the same level of pressure on Ministers to clarify ex-ante what these outcomes are. This has occurred to some extent in the work around SRAs and Strategic Priorities, but these relate to a small percentage of government's business. Outcomes are addressed in a requirement for outcome statements in the Estimates, but these statements are of varying quality and fail to address the issues in a comprehensive manner.

---

26 Schick, A., 1996.

27 Audit Office, "Development in Accountability and Auditing" *Paper presented to 5th SPASAI Congress*, Fiji, September, 1998.

Ministers have not necessarily acted in the manner envisaged by the New Zealand public management model, either in terms of specifying outcomes or results, or in terms of operating as discerning purchasers of outputs. The mechanisms and incentives around Ministers remain very difficult issues to address, given the multi-centric and often opposing incentives and disincentives they face. Ministers tend to be in portfolios for short periods of time, which may dissuade a focus on long-term, often difficult, areas. The public nature of Ministerial accountability and political considerations suggest that Ministerial accountability may never be encapsulated in formal documentation.

Chief executive incentives

While theory has it that there are in-built incentives for performance in the current accountability and performance management systems, recent research paints a different picture. Recent empirical work by Goodman[28] indicates that the accountability system and how it is managed operate as key demotivating forces for chief executives. Particular disincentives include:

- the focus on process rather than output, such as the complicated and extensive reporting requirements;
- excessive focus on accountability and 'petty' aspects of getting the job done (e.g. a focus on how money was spent, rather than whether the result achieved was good value for money);
- having others who know less than you trying to tell you how to do your job (trying to use the authority of their department or Minister);
- too much unnecessary compliance reporting;
- rules and compliance procedures – the plethora of processes involved in the accountability regime;
- an inability to reinvest in the department's core asset – its people – due to continual downward pressure in the operational budget;
- unnecessary and detailed second guessing about management judgements by outside players;
- the bureaucracy – having to meet and argue through new policy initiatives ad nauseam;
- frustration at the intrusion of middle level management from some central agencies into the work for which [the chief executive is] responsible (top level management is fine); and
- negative and narrow reporting by central agencies; e.g. Treasury comment on performance.

[28] C. Goodman, *Factors Affecting the Attractiveness of the Position of Chief Executive of a New Zealand Public Service Department*, Unpublished research paper, Victoria University of Wellington, 1998.

Most of these disincentives relate to the way in which the system operates, as opposed to a general rejection of the system per se. The nature of public accountability will always result in some dissatisfaction with control mechanisms. Focus groups with chief executives, however, suggested that some improvements to how the system was operated would reduce the burden and cost of accountability on their departments.

Central agency behaviour

Part of the blame for the disincentive effects described above has been laid at the door of central agencies. Chief executives complain that the accountability system is operated by central agencies in a strict 'control' mode. Some mature organisations have reaped all the benefits that control can offer, and are finding that they are being constrained by its narrow application. This is not a simple rejection of external control (which all accept as inevitable in the public sector environment) but rather a rejection of the use of control as a means to encourage organisational performance. The use of small output classes, tight specification and activity measures has forced managers to move into a narrow compliance and conformance mode that can discourage innovation and responsiveness.

In short, many organisations have matured their internal management systems. Behaviours and operations have evolved to a point that strict output control is no longer appropriate or useful. Chief executives were concerned that the central agencies did not recognise that this change had occurred. They believed that there was a need to review the extent to which they were really being given the freedom to make decisions, coordinate activity and take responsibility for their own organisations.

Chief executives interviewed for this project felt that performance, and indeed accountability, would be enhanced by central agencies – in particular the SSC and Treasury – playing a more managerial support role (particularly in the case of a new chief executive or when a department was experiencing significant change), backed up by monitoring and qualitative assessments based on a thorough knowledge of a department’s business. This would necessitate less of a one-size-fits-all approach to assessment. Assessment might occur at irregular intervals, depending on central agencies’ confidence in the management of the department, the maturity of the organisation, and the level of risk the organisation presents to government overall. In essence, chief executives were calling for more of a 'letting the managers manage' approach rather than the current control focus.

Comment

While the three areas highlighted for further attention – complexity and duplication, information gaps, and drivers of behaviour – need to be addressed, the *Improving Accountability* project realistically will only be able to solve part of the problem. Improving formal documents and processes associated with the accountability relationship between chief executives and their Ministers offers an entry point into addressing wider concerns with the accountability system. There is scope to streamline the documents and processes, and address some of the information gaps and duplication. Any changes at this level must be undertaken with an understanding of how the information is used by other stakeholders in the system.

These changes must also be undertaken with broader issues in mind about the behaviours and incentives on stakeholders so that changes to enhance the accountability system will facilitate, and not block, future attempts to solve some of the wider problems in the performance management and public management systems. We believe that the Integrated Performance System is consistent with this intention. The Integrated Performance System, and the changes envisaged from it, is described in Occasional Paper No. 11 *Improving Accountability: Development of an Integrated Performance System*.