

A Greenfields New Zealand State Sector

This note draws from international and New Zealand experience to create one potential greenfields vision for New Zealand's state sector. It draws heavily from officials' recent visit to the UK, Ireland, Canada and Singapore, and as such is not yet fully integrated with the accompanying secretariat papers.

A greenfields state sector is very clear on what matters most to citizens, and excels in delivering just that, ...

Prioritisation is at the heart of a world-best state sector: the things that matter most to citizens are front and centre, they are clearly articulated, and someone is publicly held to account for delivering them, even when they are complex and cross bureaucratic and time boundaries.

A greenfields state sector features:

- a small set of enduring state sector outcomes, strongly led and with resources clustered around them
- long-term priorities underpin an expenditure direction, driving trade-off decisions and linking to shorter-term tools (4-year plans and headcount)
- disciplines to support effective fiscal policy in times of relative plenty.

... it is founded on clear accountability, with leadership from the centre and activity from those best placed to act, reflecting citizens' needs...

In a greenfields state sector, there is a well-managed balance between activity being driven by those best placed to recognise and respond to citizens' needs and central activity that captures economies of scale and collective action. At the centre, leadership is key. Leadership includes setting principles for centralised activity (shared services, investment decisions, senior staff development), and is coupled with support for de-centralised activity (centres of excellence, benchmarking).

A greenfields state sector features:

- strong leadership, that prioritises long-term stewardship
- principles for capturing economies of scale at the centre, in balance with devolved responsibility. This involves pooling expertise and resources where there are economies of scale, or cross-cutting issues, within a devolved accountability model (shared service centres; systematic assessment of investment decisions; central development of senior staff).

... and it continually strives to deliver the best price, quality and performance on behalf of citizens

A greenfields state sector uses a variety of ways to ensure that the services citizens receive meet their needs, and that they are good quality and price. A greater diversity of provider is key to this: the government supports local responses to citizens' needs rather than providing entitlements.

Citizens get the services they need, a greater range of providers get to participate in the market (government, private and third sector), there is innovation and responsiveness, all at a known price. Services are 'best sourced' rather than necessarily out-sourced.

Continuous improvement is at the heart of a world-best public service: incentives remain with individuals and agencies to drive their own performance, driven hard by peer pressure and critical eyes.

A greenfields state sector features:

- a clear framework for best-sourcing services, to provide direction & consistency
- contract management capability to support contracts with a range of providers, and at times for outcomes
- market testing of all service provision, to provide information on price and quality, and to introduce more innovation into the way services are provided
- quality monitoring (to ensure price does not come at expense of quality)
- benchmarking is an accepted part of the system and results are routinely published
- around 12-15 government departments that reflect and give effect to government priorities, drive accountability and performance and minimise compliance costs.
- agency boards play a role in driving agency performance.

Trip Report

This paper draws heavily from officials' recent trip to Canada (Montreal and Ottawa), London, Edinburgh, Dublin and Singapore. It attempts to bring together the themes from overseas experience with our own thinking about what a world-best state sector, considered without the constraints of current arrangements, could look like ('greenfields').

As such, this paper is not fully integrated with the companion Secretariat papers – which are necessarily bound to some extent by current arrangements and reflect a broader range of views.

The paper is premised on the characteristics of a world best public management system, from the perspective of citizens, government, macro, and public servants.

1. From the **citizen's (including businesses) perspective**, the state sector should:
 - Provide the foundations of society – i.e. rule of law, democratic institutions, property rights, etc.
 - Provide a Stable environment for business / decision making
 - Provide services (directly or indirectly)
 - Have integrity; be responsive and fair
 - Be resilient – i.e. available in times of stress – good times and bad.
 - Provide value for money
 - Be accessible
 - Provide a one-stop-shop for government related services (not just govt provided)
 - Be customised to citizens' and business needs
2. From **Government's perspective**, the state sector should:
 - Be bipartisan, politically neutral,
 - Act as guardian of the system for future governments (stewardship)
 - Be responsive to Ministers' agenda
 - Be capable on policy advice (innovative / analytically rigorous)
 - Be capable on execution
3. From a **macro perspective**, the state sector should:
 - Be productivity enhancing – i.e. not less productive than the rest of the economy
 - Limit its activity to what government does best
 - Be fiscally disciplined – i.e. not procyclical
4. From **public servants' perspectives**, the state sector should:
 - Provide a public management system to be proud of
 - Provide the opportunity to make a difference / be creative / innovate
 - Treat those who work within it with respect

Building from this foundation, the report is organised around eight themes:

1. Accountability for outcomes
2. Prioritisation
3. Departmental autonomy or not: economies of scale in a devolved model
4. Joined-up government
5. The role of the centre
6. Contestability and localism
7. Culture of performance
8. Agency structures

Theme One: Accountability for Outcomes

New Zealand has been world-leading in articulating the importance of outcomes and, to some extent, impact measures in driving public service performance. However, the reality has often failed to match ambitions, and we have struggled to get consistent traction on priority outcomes – particularly where delivering on the outcome does not fit discretely into the remit of one agency.

International experience

The constrained fiscal environment and focus on cost-reduction appears to be driving a trend away from focusing on outcomes in some jurisdictions. In Canada, the four-yearly strategic reviews of departments by the Treasury Board have given way to annual reviews with a specific focus on the delivery of savings targets. In Ireland, the scale of savings required is underpinning a reform agenda focused almost exclusively on efficiency. In the UK, the coalition government made a strong move away from Labour's focus on public targets as a primary driver of performance. This move has seen the cross-agency and outcome-focussed Public Service Agreements replaced with departmental Business Plans detailing specific actions for each agency.

Scotland and Singapore are exceptions to this trend. Scotland is continuing to drive a framework of seven government economic strategies and 15 national outcomes supported by a set of 42 national performance indicators. Progress on each of these is reported publicly on the *Scotland Performs* website. While the overall effectiveness of the approach has been compromised by variable local government re-interpretation of the priority outcomes, the framework has created an important conversation about priorities and progress that was not previously occurring.

Singapore publicly released a Public Sector Outcomes Review of six whole-of-government outcomes and 51 progress indicators for the first time in December 2010. The public version is backed up with a range of department specific indicators that are used to assess performance and inform budget discussions. A departmental official who was critical of the effectiveness of a range of centrally driven initiatives in Singapore stressed the importance of the outcomes framework, calling it "the worst tool except for all others".

The fragmenting impact of the general move away from driving a focus on cross-agency outcomes is partially mitigated by Canada, UK, Ireland and Singapore all having 15 or 16 departments compared to 39 in New Zealand. Scotland has gone a step further and created a single public service department representing a third of their public sector (with the balance made up of local government and local health services). New Zealand is a clear outlier in this regard with other jurisdictions making the integration of sector leadership and policy capability a structural priority.

The UK is also looking to a shift from 'bureaucratic accountability' to 'democratic accountability' to provide a new way of focusing on outcomes in the 'post-bureaucratic age'. This has seen an emphasis on centrally driven outcome and output targets replaced by a focus on the devolution of decision-making to individuals and communities backed up by a commitment to releasing the data necessary for people to make informed choices and hold public services to account directly.

This is a key component of the *Big Society* push towards diversifying service delivery to make the state just one player amongst many. The Cabinet Office are finalising a White Paper that aims to set out this philosophy in clear and consistent terms. This paper was due in January and in its absence the government has made a series of decisions and interventions to take back control that make the commitment to devolution and diversity of delivery seem less sure. The coalition government is slowly coming to accept that some centralised outcomes and targets are necessary for Ministers to be seen to be fulfilling the level of accountability that the public expects of them.

Greenfields New Zealand

Features of a greenfields New Zealand system are:

- A clearly defined and agreed set of enduring sector outcomes
- strong sector leadership and the clustering of agencies around outcomes
- sector policy hubs that draw together thinly spread policy resources, and
- direct accountability to the public through the transparent release of data and information.

A greenfields system would therefore include:

Sector outcomes: To drive a focus on what really matters, fewer and more enduring outcomes established and measured at the sector level. Central agencies would work with Ministers and sector lead CEs to establish a set of outcomes that underpin the prioritisation of system and sector initiatives and the setting of individual CE expectations. Each of around ten sector clusters would have 4-5 outcomes defined on a two year cycle. Statements of Intent and refreshes of the four-year budget plans would only be required every second year. New Zealand already does well at defining and managing outputs but the output mix could be improved by testing against sector outcomes to assess whether they will deliver the required results.

Sector leaders: Accountability for the delivery of outcomes needs to be matched to decision-making authority, resources and the power to get things done. Driving delivery against sector outcomes is contingent on stronger sector leadership and the ability to cluster agencies and their resources. Mandated sector leadership would provide clear lead individual accountability and decision-making authority supported by the collective and individual accountability of the sector CEs for delivering on the priority sector outcomes.

The sector leader could take on some of the authority of the State Services Commissioner in contributing to the appointment, expectation setting and performance review of other CEs in the sector cluster. Mandated sector leadership would also provide the opportunity to form a strong state services leadership group – consisting of the sector leaders and the central agency CEs – to support the focus on defining and delivering sector outcomes.

Sector policy hubs: The art of policy is connecting outputs to outcomes, and New Zealand could strengthen policy effectiveness on priority issues through the creation of sector policy hubs that draw together thinly spread policy resources.

Public accountability: New Zealand could make better use of direct accountability to the public through the transparent release of data and information supporting the devolution of some services to individuals and communities. However, the UK Big Society agenda has drawn a false dichotomy between top-down and local accountability mechanisms and while public capacity to hold agencies to account is being developed top-down accountability mechanisms need to be retained.

Theme Two: Prioritisation

In a world best state sector, resources would flow to the government's priorities. This is important in any economic and fiscal context, but particularly when there is fiscal pressure – either current, or future (reflecting demographic changes and projected expenditure growth).

This requires a mix of certainty where that matters (e.g. in ensuring the fundamentals of a democratic system, and access to basic healthcare), flexibility to meet governments' changing priorities or changes in the economy, and some effort focused on considering how priorities may need to shift in the future. This links to the need to shift spending to reflect priorities, including trade-offs across the large spending areas where resources can become locked in.

In a greenfields, world-best state sector, there are few, clearly articulated priorities that drive the state sector's efforts and to which resources flow. Ministers are able to shift resources flexibly, to drive progress towards these priorities, within and across sectors. There is an opportunity for New Zealand to get ahead of the game here – developing an evidence-based and aspirational prioritisation approach.

International Experience

The British, Scottish, Irish, Canadian and Singaporean approaches to setting and managing outcomes are set out above, with the Scottish and Singaporean models being closest to having rationalised outcomes frameworks. Even in these countries, little attention is yet being given to prioritisation that looks either beyond the short term (only Scotland has a 10 year focus), or prioritisation of expenditure within the base.

In the UK, Ireland and Canada, efforts are very much focused on managing within declining budget envelopes, often not extending much beyond the current year. Ireland is under particular pressure, with spending being heavily cut across the board. They do have a medium-term expenditure framework, but the focus is only on fiscal management, rather than any policy priority-setting. Comprehensive spending reviews every two to three years are also used to drill down further.

The only mechanism for prioritising efforts beyond vote boundaries is the use of vote groups. The 41 votes are divided into 13 blocks, within which Ministers can move money around.

The UK has moved from Public Service Agreements with targets, to Business Plans for each agency, which are primarily focused on driving performance rather than prioritisation. Business Plans set out the agency's agenda for the year ahead, focusing on managing within spending envelopes, and providing the basis for performance reporting. They are political documents, for which the Secretary of State is accountable. Currently, there is little emphasis on prioritisation or even cross-cutting issues. As a first step on the latter, departments have been asked to relate their plans to the government's growth and social mobility agendas, and the intent is that once more of these strategies are developed, the plans will be linked to those too. The approach seems a bit ad hoc, and does not yet get near to making active trade-offs across sectors. The need to break into the larger spending areas (including transfers) was acknowledged, but is not yet clearly on the work programme.

Some prioritisation was evident in the UK on the capital side, with the expenditure pressure giving rise to a more rigorous approach to assessing capital initiatives. All capital project bids

were subject to an NPV methodology, using social costs rather than GDP. This led to active sorting and prioritisation of investment initiatives, and much better information on the costs and benefits of the projects. While data for the first year was patchy, the methodology appears sound and data is expected to improve over time. This seemed to be a good example of fiscal pressure giving rise to innovation and a pocket of prioritisation improvement.

An important element of prioritisation is the ability to look beyond the current set of priorities to those of the future. This sort of thinking was absent within government in all countries except Singapore. Here, it is considered an important part of the landscape – a Strategic Policy Office of 15-20 people sits within the Prime Minister's department. The Office does its own thinking (publishing state of the future reports), acts as a clearing house for others' thinking (e.g. think tanks), and provides tools for departments to do their own planning and thinking. Those working within the Office were enthusiastic about its role, and the need to focus on the long-term was strongly emphasised by the former Head of the Civil Service. A sample of one line department was more sceptical about its relevance, and the ways in which strategic thinking is translated into day-to-day policy work was unclear.

The UK in particular, however, does draw from a number of think tanks, who generate some of this thinking.

Greenfields New Zealand

A greenfields approach to setting and managing current outcomes is set out above. Beyond this, New Zealand is well placed, and should take the opportunity, to develop and implement a fresh approach to prioritisation in the longer-term. There is enough fiscal pressure now, and more so building up in the future, to generate political interest. But, there is not the urgent need to reduce deficits drastically and quickly that is forcing a cruder short-term approach elsewhere.

Drawing on available evidence is important to making the case – for example, matching historic spending with outcomes achieved, and assessing who benefits from social spending (fiscal incidence). The work done in New Zealand *Better Aligning Expenditure and Priorities (BAEP)* which does this, and uses the information to generate possible priorities (e.g. better targeting of services) seems to be best practice and generated interest from other countries. In a greenfields public sector, a set of expenditure principles would drive expenditure choices. The principles should be: clear, evidence-based, well communicated and supported by Ministers.

In terms of giving effect to priorities, there is scope to make more of two current mechanisms:

- Using four-year budget plans actively to prioritise activity within agencies (and, where it makes sense, for clusters of agencies). The plans should link clearly to government's overall outcomes, and show how resources are being utilised. Refreshing the plans every two years would reduce compliance, and build a greater degree of certainty.
- Using a public sector head-count as a way to prioritise resource use. There is some attraction in a cap on head-count in times of less fiscal pressure, as a way to avoid burgeoning numbers of bureaucrats. This captures a broader prioritisation point – about prioritising resource to the more productive parts of the economy to support economic growth. Overseas lessons would suggest considering an approach that provides some flexibility (to allow responses to emerging pressures), and some tailoring (to reflect that some areas will be more squeezed than others).

Theme Three: Departmental Autonomy or not: Economies of Scale in a Devolved Model

Clear accountability lies at the heart of a world-best state sector. Key to this is striking the right balance between capturing the benefits of devolved responsibility (clear accountability, freedom to act) with economies of scale and the need to address issues that cross agency boundaries.

International Experience

With the exception of Singapore, all countries visited held fewer services and functions back to central government, instead contracting or requiring provincial or local government to deliver services such as education, police, etc. On the other hand, within the organs of central government those same countries run much more centralised systems. In all cases other than Singapore, managers in line departments have less control over input decisions than in New Zealand.

All countries visited are actively seeking to take more cost advantage of the scale of government, typically by building centres of expertise in specialist functions such as procurement and finance. The typical approach to shared services is not to impose a single solution, but rather to consolidate on 2-3 shared services centres and over time migrate all agencies there. Some countries (UK) are looking at making use of shared services centres mandatory. Others (Ireland) will achieve the same result, but through persuasion and as needed budgetary pressure.

Most other countries are taking advantage of their centralised control over departments to impose various forms of cost control. This variously takes the form of imposing a freeze on recruitment, sometimes on consultants, marketing, etc. Not surprisingly, this has prompted some resistance from line departments, expressed most vociferously in Canada, more philosophically in the UK. Singapore bucks this trend to some extent, with departmental managers (and even more so in statutory boards) given much greater discretion over their input decisions. Even in Singapore the practice is more restrictive than the rhetoric. Several years ago all departments faced an across the board headcount reduction requirement of about 10% over three years, and even now the rate at which FTEs can increase is capped at some proportion of the growth in the Singaporean workforce overall.

The UK, Singapore, Scotland and Ireland all have active “talent management” programmes in place, and all exercise some form of central control over at least senior positions (dep sec. and above). This is most developed in Singapore where promising graduates are recruited directly into a leadership stream, then career managed on a McKinsey like “up or out” basis. Both deputy and permanent secretary contracts are limited to 10 years, with the consequence that even the best leaders will be moved on by their mid-50s.

Greenfields New Zealand

A key tenet of the New Zealand public management system (as set out in the State Sector and Public Finance Acts) is that departmental chief executives have considerable freedom to make their own management decisions on how best to produce their outputs. Whilst this has been slightly attenuated over the years (with the introduction of bargaining parameters and other occasional requirements (such as around sustainable management) New Zealand chief executives enjoy more autonomy than departmental heads in almost all other countries.

There is little doubt this relative autonomy has created some genuine value. Chief executives have varied their staff and input mix according to their need, recruited from a range of sources, varied their accommodation, finance and IT to make it fit for purpose, outsourced some activity and learnt from each others' innovation. To some extent, Ministers have been able to distance themselves from tough management decisions (e.g. restructuring and redundancy), which has arguably created an easier environment for management reform.

New Zealand has avoided the excessively bureaucratic controls still present (and now being further emphasised) in many other jurisdictions.

This autonomy has, however, come at a cost. Until recently the New Zealand state sector has remained contentedly immune from pressure to capture back office economies of scale. There is an absence of standard metrics which make comparability and benchmarking considerably more difficult and costly. Geographic boundaries and approval delegations are inconsistent making inter-agency activity more complex. And there is relatively little cross-sector movement of staff, which may undermine the development of fully capable state sector leaders.

The challenge for a "greenfields" public management system is to retain the flexibility and freedom of a relatively devolved public management model, whilst capturing more of the advantages of scale. Or alternatively, to ensure departments take their place as part of a coherent State sector without a detrimental loss of individual identity.

For each type of decision, the critical judgement is whether the gains from more local decision making are sufficiently strong that it is worth holding chief executives accountable for them. To the extent that the local gains are relatively limited, and there are advantages in system wide decision making, it makes sense to curtail some of the discretion that chief executives would otherwise have. Some principles could usefully guide decisions:

- default setting should remain that chief executives retain control over all input decisions
- where the purchase of inputs is characterised by material economies of scale the system should facilitate individual agencies taking advantage of them
- in functions where inter-agency cooperation is important, systems should be standardised to the extent necessary to enable inter-operability
- management information should be mandatorily recorded in ways that facilitate more straightforward benchmarking
- decisions on whether to standardise or not should take account of all costs and benefits, both the costs faced by individual agencies in curtailing options and complying with central requirements – and the benefits of scaled up, coordinated multi-agency action.

Shared Services Arrangements

New Zealand's decentralised model of departmental accountability means we have a lot of small agencies, all of whom have put in place their own specific systems. Until recently no advantage was taken of the wider purchasing power of government, and contracts for back office services were negotiated by generalist admin managers with little specialist expertise.

Shared services arrangements are not a panacea, even in much bigger countries than New Zealand. Shared services centres can be unresponsive and inflexible, particularly if they are endowed with monopoly status and departments are required to use them. Moving to more shared services arrangements is more complicated in New Zealand as current back office systems tend to be less standardised than in other countries.

Nevertheless, we expect significant cost savings from moving to more shared services should be attainable in New Zealand and shared services centres are a feature of our greenfields public management system. MED's leadership of procurement and the recently established Property Centre of Expertise hosted by MSD and the ICT Council established by the Department of Internal Affairs, are initiatives that point in this direction.

As recommended in the BASS Gateway Review, however, we expect the transition will take some years and will emerge in a bottom-up way. It will be facilitated by continuing attention to cost and quality benchmarking and by proactive functional leadership, including agreement and promulgation of inter-operability standards. Once shared services arrangements are in place we would envisage chief executives retaining an opt-out option as a guard against unresponsive monopoly behaviour.

Big Capital Investments, Particularly ICT

Significant capital projects have tended to be treated on an agency by agency basis in New Zealand, with wider considerations coming into play only in the context of prioritising limited capital investment funds. The Investment Statement, first published in December 2010, widens this focus slightly, but only at an aggregated level.

Beyond "business as usual" capital expenditure we consider there is room for Government to more systematically and quantitatively prioritise its investment decisions, as per the UK CBA approach.

We expect there is room for greater central control to be exercised over departments' ability to draw down funds accumulated from the depreciation of large, long cycle assets. Funds to replace these sorts of assets typically accumulate over a period that exceeds the natural horizons of departmental decision makers and experience demonstrates that they are too easily diverted to other assets in the meantime.

A case can be made for a greater central influence over significant ICT investment: to ensure inter-operability with other agencies' systems; because such projects tend to be high risk (so sequencing matters); and arguably because there is limited capacity in the New Zealand ICT community, which in turn justifies more deliberate whole of government prioritising.

Our greenfields public management system does not envisage imposing restrictions on business as usual capital expenditure.

Boundaries

Different agencies in the New Zealand public management system frequently work to different boundaries, both from each other and from local government. This is periodically identified as an easy issue to fix, then progress is prevented by the sheer inertia of getting started. Aligned boundaries will facilitate better inter-agency cooperation and comparability and would be a feature of a greenfield public management system. It could take 10 years, but now is the right time to just get on with it.

Human Resources

Human resource management tends to be far more centrally managed in other jurisdictions than in New Zealand. Most comparable countries have some form of senior executive service, consistent grades across agencies, centralised wage negotiations, transferable sickness leave, often a “fast track” programme for the most promising recruits and inevitably a generous defined benefit superannuation scheme.

Public servants tend to identify relatively more strongly with the service as a whole than they do in New Zealand, though even in more centralised countries staff’s dominant point of identification appears to be their employing department. There appears to be somewhat easier transfer of staff between agencies in other countries, but relatively less interchange between the public and private sectors.

The key advantage of the New Zealand system is that chief executives have strong incentives to manage their own staff well and can adapt work conditions to suit their particular requirements.

In our greenfields public management system, we would shift the balance in the direction of more centralisation, particularly in the development and assignment of senior staff. This could go as far as reinstating a senior executive service where the State Services Commission plays a more active role (potentially the lead role) in developing leaders and ensuring that promising staff benefit from a wide range of experiences as they progressed through their career.

We are not convinced that standardising grades, job titles, pay rates, etc across agencies would be beneficial, even though some of the variation that now exists in New Zealand seems to add little more than complexity. Chief executives do seem to value this discretion, and unlike some other corporate functions tend to engage personally in HR policies and decisions. We would, however, look to establish a common expectation that sickness leave balances would transfer automatically when staff shifted jobs within the state sector.

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Theme Four: Joined up Government

However government is structurally put together, joining up efforts across entity boundaries is important to effectively addressing whole-of-government issues.

International experience

Integrated end-user services – for both individuals and businesses – are being pursued with varying degrees of prioritisation in all jurisdictions. While Canada is avoiding significant public sector reform under the cover of ‘incrementalism’ they have nonetheless made significant steps towards integrated service provision at both the federal and provincial level. At the other end of the spectrum, Ireland’s fiscal crisis has put efforts in this area on the back-burner for the time being.

On the policy side, addressing complex whole-of-government issues remains a challenge everywhere. Singapore has identified research and development, climate change, terrorism and immigration as priority issues requiring a whole-of-government response. For these issues it has created ‘National Committees’ that sit within the Prime Minister’s department and draw together groups of permanent secretaries with a lead official tasked with moving the agenda forward.

The UK has moved away from the cross-agency focus of the Public Service Agreements but has retained two whole-of-government priorities – growth and social mobility – that have actions embedded in Business Plans across multiple departments. Even Scotland’s model does not eliminate all the challenges of working horizontally, as getting different directorates within a single mega-department to work together effectively is still a governance and accountability challenge.

Peter Ho Hak Ean, the recently retired Head of the Singapore Civil Service, placed a very strong emphasis on whole-of-government and longer-term thinking in his role as the performance manager of the other Permanent Secretaries. He drove this by providing formal opportunities to lead whole-of-government work, closely tracking whole-of-government contributions and including formal peer feedback in performance reviews, and making a significant proportion of performance pay linked to whole-of-government obligations.

Local or municipal government is a much more significant player in the delivery of public sector services in all of the countries we visited except for Singapore. This provides a stronger platform for the local provision of joined-up services, but also greatly complicates the ability to build cross-agency standardisation and drive diversity of service provision. In the UK, despite the push towards localism, there is an emphasis on local government, like central government, just being one of a diverse range of providers delivering services.

Greenfields New Zealand

In a greenfields New Zealand system we would:

- integrate business-facing services and individual transactional services
- enable chief executives to delegate decision-making, resources and accountability for specific results to a cross-cutting entity or individual
- build whole-of-government and sector obligations into chief executives' performance expectations and pay, and
- look to local government as one of a diverse range of potential service providers.

The features of this system would be:

One-stop-shops: End-user-centric integrated business-facing services and individual transactional services would be standard in a 'greenfields' public management system. To deliver a truly integrated experience all such services would be required to be delivered by respective dedicated executive agencies.

Pooled funding and accountability: Even significant clustering or structural integration of agencies will not address every situation where horizontal accountability is required. Increased flexibility also needs to be possible within the legislative framework, in balance with clear accountability. Creating more flexibility around the accountability unit so that it is not always agency-based is worth exploring (e.g. delegation to a cluster might make sense in places).

Whole-of-government performance incentives: Chief executives' expectations, performance reviews and performance pay would include whole-of-government and sector leadership contributions in addition to individual agency accountabilities. Assessment against whole-of-government and sector obligations should include formal peer review by other chief executives.

Local government as one of a diverse range of providers: We are not proposing any fundamental change in the balance of responsibilities between central and local government in New Zealand. Local government should be included as one of a diverse range of providers that may be best positioned to deliver a particular set of services.

More generally, given the broader move towards greater diversity of service providers, it will be important to build into contracts the need for services to be easy for the public to access.

Theme Five: The Role of the Centre Reprised

A strong centre providing leadership and direction is essential to a world-best state sector. Striking the right balance of central oversight and delegated responsibility is challenging, particularly in New Zealand where recent history supports a high level of agency autonomy (which comes with significant benefits).

International Experience

In all countries visited we saw a degree of tension between the central agencies and line departments, ranging from bitter frustration in Canada to cheerful cynicism in Singapore.

Unsurprisingly all finance ministries had a focus on fiscal policy and overall expenditure control. In both Ireland (the new Public and Expenditure Reform Department) and the UK (the Expenditure Reform Group, a new bit of Cabinet Office) new entities have been created that are driving forward an agenda of lower cost, management practice. Responsibility for management of inputs is somewhat confused between these agencies and the Treasury / Department of Finance.

Most countries have clearer arrangements than New Zealand for overall leadership of the civil service. In Ireland and the UK, the Department of the Taoiseach and the Cabinet Office have unambiguous roles, Scotland has just one department so is straightforward, Singapore has an appointed “Head of the Civil Service” who holds the post concurrent with being a permanent secretary in a department, though we were told the Ministry of Finance was the lead department. And the Canadian public service is sufficiently downtrodden that leadership may well be something of a difficult concept.

Greenfields New Zealand

While there are strengths in the devolved New Zealand model that need to be preserved, New Zealand may have under-estimated the gains that stronger leadership of the State sector could enable. There is too much emphasis on locally optimising departments rather than a globally optimising system.

The roles the centre needs to undertake are around:

- overall leadership and direction. This includes a stewardship role, looking to the long term, and ensuring that the public sector has the capability for now and in the future.
- responsibility for longer term strategy.
- Supporting agencies by driving and sharing best practice, and removing barriers to success.

Reflecting this, a stronger centre in New Zealand could:

- reduce departmental coordination/inter-operability costs though the judicious introduction of system standards.
- ensure clear assignment of responsibility for facilitating the sharing of best practice.
- strengthen sector-based leadership (and work on whole of government priorities) through a richer set of mandating tools (see outcomes discussion).
- align departmental activity through prosecution of a more deliberate change agenda.
- assert the interests of the system as a whole when that diverges from the interests of different entities (e.g. in moving up and coming talent around). This could be driven from a central team focusing on long-term strategy and direction for the state sector as a whole.

Theme Six: Contestability & Localism

World-best government makes sure that people have access to the services they need when they need them. It does not have to be the provider – although at times it will choose to be. A greenfields state sector would include a greater diversity of service providers. This is based on the benefits that accrue from increased provider diversity (opportunities for a range of actors to provide services – government, NGOs and private) such as innovation and responsiveness, and to ensure value for money (exposing more of what the government currently does to price and quality disciplines).

A greenfields state sector would therefore harness, via provider diversity: greater choice for people, better information on price and quality for public sector managers, and better value for taxpayers. By contracting for outcomes in some places, the potential gains include better results – lower crime, higher quality education and better healthcare.

International Experience

This note includes reflections from experience in the UK, Ireland, Scotland, Canada and Singapore. The main focus is on the UK, where the current coalition government is moving to make much greater use of contestability, building from initial work in this area under the Blair government.

The reform agenda in the UK is based around a loose framework of choice, diversity, decentralisation, fairness and accountability. While there is a sense that this framework has been retro-fitted, the general intent to shift the role of the state to being a rule-setter rather than the default provider is clear. This is in part influenced by the Big Society agenda – devolving power to people – and opening up provision of services to ‘any willing provider’. The current rhetoric is around a ‘tight-loose’ model – with tighter central oversight of administration and looser oversight of service provision.

In practice, the framework and direction around contestability do not seem to be as clear as they could be, which has led to a ‘patchwork quilt’ of arrangements across the state sector. Arrangements include government, private and mixed arrangements such as mutuals (where workers are offered shares in the entity) and social impact bonds. Proposed changes to make greater use of the private sector in the education and health sectors have been reined in in light of public reactions (private provision of schools was taken off the table; a model of GP budget holding allowing choice of secondary care providers is being reconsidered). The approach has led to some confusion and a mix of arrangements. Public changes to decisions will require careful management to avoid jeopardising the broader agenda.

While a clear direction and consistent application seem to be important lessons, they do not imply making changes across the board at the same time. The ‘pioneer’ approach of introducing greater contestability in the places that make most sense (where there is a willing Secretary of State, Permanent Secretary, and an existing market) seems sensible. The ‘Work Programme’ – an initiative which combines benefit and tax rules, and the introduction of a universal benefit – is one example where social services are contracted for in regional blocks. In some places, generating better information on government services will generate its own momentum. There are several examples where publishing government information has led to the generation of local solutions by entrepreneurs (e.g. in the UK, crime data revealed statistics around theft of bags from supermarket trolleys, which led to the design of trolleys where bags

could be locked; Canadian data has led to the creation of apps to fix local issues). This brings an even greater diversity of provider into the mix.

Contracting for outcomes is part of the mix in the UK, again reflecting the idea of generating local solutions to local problems. There is a sense of a shift in the role of government – away from the notion that government will always provide, to an acknowledgement that central government does not always know best (or even really understand the problem).

Outcome-based contracting is also potentially a way to get at the harder social issues, which are not easily broken down into their component parts (education, health, housing, crime etc). This is still an experimental area in the UK (and does not seem to be in play in Ireland or Scotland). There are some emerging useful ideas – for example, taking a disadvantaged group and tendering for provision of services to meet the group's particular needs. Again, this approach represents a fairly fundamental shift: assessing individuals' needs and providing the services to meet them, rather than providing services and ensuring that individuals get what they are entitled to from the government.

Only Singapore has gone as far as to make market testing mandatory, as a way to expose the price and quality of services. Here, non-strategic functions (such as service provision) are 'best-sourced' – departments must test the market to find the best provider, which may be government. This had a value-for-money focus – getting best value for non-strategic functions, while also freeing them up to focus on strategic functions (so, it also brings in a prioritisation dimension). Other jurisdictions expressed interest in going this step, as a way to change the culture of the state sector – from assumed provider at a given and often unknown price, to one of many possible providers in a market where the price is known. Even when government retains provision, it does so on a more transparent basis.

Greenfields New Zealand

Taking the lessons from overseas experience, a greenfields state sector in New Zealand would include a greater diversity of providers, often focusing on local solutions to problems. Citizens would be at the heart of this: the government's role would be around assessing individuals' needs, and then ensuring that services are provided to meet those needs (versus individuals collecting their entitlements). Most, perhaps all, government services would be market tested to provide information on price and to support decisions about quality.

The features of this greenfields state sector are:

- A compelling story rather than a rigid framework for contestability. There needs to be a clear public story around contestability, so that actors in the system can make sense of it and make choices accordingly. This should not be a rigid framework, however. A story that hangs around opening up provision to a greater range of providers who can deliver the best value services to citizens is likely to be enough for the public, along with an assurance that the government guarantees provision and is open to feedback on how well it is being done. Officials will require clearer guidance (refer below). A flexible approach will allow innovative approaches to emerge and happen as and when they make sense. Politically, this provides Ministers with ways to manage the risks and to learn by doing.
- Strong contract management. A shift towards a greater diversity of providers requires good contract management skills in order to manage complexity, ensure clear accountability, and

manage risk. In a greenfields state sector, agencies retain accountability for provision, with support from a centre of expertise on looking for providers, market testing, developing and managing contracts. Risk management is difficult – particularly around outcomes based contracting, where the outcomes are likely to be achieved over long periods of time, potentially beyond the life of the contract. The capability to manage this sort of complex contracting is not readily available in New Zealand and will need to be actively built.

- An emphasis on quality. Introducing commercial disciplines to service provision is a useful way to expose price (so, even if services are not tendered, government agencies have a clearer sense of the cost of their own services, which is not always the case currently) and to get services more cheaply. There could be risks to the quality of service provision by contracting out – if a focus on economy is traded off against efficiency and effectiveness. For this reason, contestability was not considered at all as part of the recent review of the public sector by the Christie Commission in Scotland. Again, the way through this is likely to be a mix of expertise at the centre (knowledge of services and the quality needed), and good contract management (so that quality is specified and monitored). It could be useful to consider identifying a number of trusted providers in key areas, to build incentives around quality delivery and to provide some stability over time (e.g. avoid multiple short-term contracts with a wide range of providers).

Theme Seven: Culture of Performance

Continuous improvement can mean different things to different people. Continuous improvement evangelists tend to be promoting one or other “lean” techniques, all of which essentially work by breaking down work processes, engaging staff (front and back office) in identifying improvement and measuring progress. We have taken a slightly broader approach and included all those things an agency can do that maintain pressure to perform. Creating and driving incentives to perform well (including via innovation) are at the heart of this.

International Experience

In most of the countries visited, continuous improvement is currently the poor relation to cost control. This was most stark in Canada and Ireland, where we could not discern any meaningful attention been given to continuous improvement, less so in Scotland where the Christie Commission will have some insights, and in the UK, where although cost control is king there is some useful continuous improvement work underway. Singapore is now 16 years into “PS21” a programme of continuous public sector improvement that initially included centrally imposed numerical targets for suggestions, but now looks to embed continuous improvement more naturally in each department.

Both Scotland and the UK emphasised that benchmarking was a useful technique for exposing areas of better and lesser performance and enabling lessons to be learnt. The UK is attempting to harness contestability (as discussed above) as a driver of innovation and continuous improvement as well as deliberately pushing forward on lean techniques, including by establishing a virtual “Academy of Continuous Improvement”, whose brief is to promote lean techniques and support departments undertaking them.

Capability reviews (the UK form of the Performance Improvement Framework) are still undertaken but mainly now without the same level of independent scrutiny and central agency involvement than they had initially (or that remain a characteristic of the PIF).

The UK has also pushed further the use of departmental boards, requiring them to be chaired by the secretary of state (as opposed to the permanent secretary). Whether these boards have increased the focus on performance remains something of a moot point. Our sense was they varied hugely, reflecting the variation in Ministerial personalities and appetites for such a body. Canadian officials we spoke to were enthusiastic about the role of External Audit Committees, which were increasingly working in support of Deputy Ministers as a robust check on performance and sounding board about departmental policies.

In the UK in particular, efforts were being made to create pressure for continuous improvement by dramatically increasing transparency around agency operations through making datasets of management information available and inviting local communities more directly into departmental decision-making.

Where we did come across people enthusiastic about continuous improvement they consistently advocated the involvement and ownership of front line staff. The most dramatic example of this is SPIGOT, an interactive software tool that creates a (semi- addictive) game where rewards and reputation accrue to those folks who are coming up with business improvement ideas. The Singapore Government put in place the \$10k Project where any good idea worth at least \$10k would be backed by senior management and implemented.

Greenfields New Zealand

The challenge in better harnessing continuous improvement is to ensure the system has drivers and incentives in it that prompt managers to seek and implement improvements.

A greenfields public management system in New Zealand would retain a number of its current features. PIF will continue to evolve, but we expect will endure in some useful form. Current BASS benchmarking is as good a model for comparing back office efficiency as any we were shown. We are positive about further benchmarking (such as for policy advice) provided it throws up comparisons that are meaningful.

We think there is opportunity to roll out departmental advisory boards (as per the NZ Treasury model) to other departments, particularly to departments that might take on sector leadership responsibilities. We would, however, script boards to focus more tightly on specifying what performance looks like for their department (or cluster of departments) and on holding management to account. We would not include Ministers on boards, but would involve the State Services Commissioner more directly in external board member appointments.

We would not require departments to undertake lean techniques as we think the chief executive should have the right incentives to make good decisions on when and how to go down this path. We do think there would be value in establishing a central (perhaps transitional) team as per the UK to facilitate the transfer of best practice amongst agencies and ginger tardy departments along.

As a direct and short term improvement to the NZ public management system significant cost could be removed by rationalising the number and frequency of accountability documents required by central agencies. As discussed elsewhere in this report we suggest Statements of Intent be produced on a sectoral basis no more than once every other year.

Theme Eight: Agency Structures

State sector structures are an important mechanism for reflecting and supporting enduring priorities, giving confidence, driving performance and accountability, minimising compliance and transaction costs. They should also make sense to Ministers and the public. Arguments for changing the number of agencies should hang from these sorts of criteria.

International Experience

None of the countries visited had anywhere near the number of ministries as New Zealand (39). No jurisdictions were embarking on a major rethink of departmental configuration, noting the costs of structural change were such that “shifting the deckchairs” was probably not a worthwhile or cost-free pursuit. Having said this, Scotland remain very enthusiastic about their single department model and would commend others to follow a comparable route of consolidation.

The UK, Ireland, Scotland and Canada are, however, all looking to reduce the number of quangos in their systems. Scotland have been reasonably successful, the UK are somewhat rueful that they under-estimated how difficult it would be.

All countries have some form of executive agency / statutory board form. Typically executive agencies hang off lead departments, focus on delivery and have somewhat more operational freedom than departments. Accountability arrangements may or may not involve a board and their leadership is typically appointed by the parent department.

Greenfields New Zealand

We became more convinced as we travelled that structural change would be part of a New Zealand greenfields public management system. Our view is that the current plethora of departments spreads policy, leadership and management talent too thinly, creates noise and duplication and generally breeds confusion.

We suggest a greenfields public management system would have 12-15 lead ministries, all of which would have a reasonable policy capability. Policy hubs would emerge (as per the Scott Report) which would also be charged with preparing a long run view.

Some of these lead ministries (e.g. Justice, Social Development, Economic Development) would have clear sector leadership responsibilities. The importance of this sector leadership linking with leadership of the overall system could be emphasised by designating certain lead chief executives as Deputy State Services Commissioners: and taking on various appointment / performance review responsibilities as a consequence.

We are less clear whether these ministries would undertake delivery. A pure model would separate delivery functions off into executive agency type models (e.g. the New Zealand Defence Force hanging off a new Ministry of Defence and National Security), but a better approach may be to create internal separation of operational functions (as per the current MSD configuration). It may well be that a range of arrangements makes sense. If operationally focused departments are retained (e.g. Corrections) we would more strongly assert that they should not have a policy function independent of the lead Ministry of Justice.