Better Public Services

DRAFT ISSUES PAPER:

Sectors: Organisational Arrangements to Deliver Results

November 2011

This paper sets out the Secretariat for State Sector Reform's thinking on some of the issues associated with organising departments and agencies into sectors to focus on the more effective delivery of results that cross agency boundaries.

This paper is part of a series of background papers prepared by the Secretariat for State Sector Reform to support the work of the Better Public Services Advisory Group and, as such, this paper does not represent the views of the Advisory Group.

DEPARTMENT
of the PRIME MINISTER
and CABINET

STATE SERVICES COMMISSION
Te Komihana O Ngā Tari Kāwanatanga

THE TREASURY
Kaitohutohu Kaupapa Rawa

CENTRAL AGENCY PARTNERS IN THE STATE SECTOR REFORM PROGRAMME

Contents

Executive summary

This issues paper is part of a series of backgrounders being prepared by the Secretariat for State Sector Reform to support the work of the Better Public Services Advisory Group.

One of the main obstacles to the state services responding more effectively to results that cross agency boundaries is the inflexibility in current organisational arrangements. This can result in:

- *weak customer focus* – as critical results for New Zealanders are addressed through poorly-integrated services that fail to meet their needs

- *fragmented decision-making* – as individual agencies can seek to protect their own interests rather than focus on solving the common problem

- *poor value-for-money* – with duplication, fragmentation and waste as there are few incentives to organise resources, delivery and decisions across agencies to innovate and capture economies of scale, and

- *insufficient sector leadership* – to work across agency boundaries and to provide strategic, long-term advice, focused on the critical results at the sector level.

A critical factor determining the performance of the public services is the clarity and focus of the results that they are seeking to deliver. If these results are clearly defined, it would be possible to organise the public services more effectively around those results. This paper focuses on the possible structural arrangements that can be used to mobilise sectors around specified results: in particular, to tackle the issues that might otherwise fall in the gaps between agency boundaries.

There is a spectrum of possible structural arrangements that could be considered to achieve this mobilisation, building on current examples and efforts to work together to address complex, cross-agency issues. This spectrum is illustrated in Figure 1, and this paper draws on these examples to explore the issues that are likely to be raised by any of these structural options for more effective sector-level arrangements.

Figure 1 – A spectrum of structural arrangements for sectors
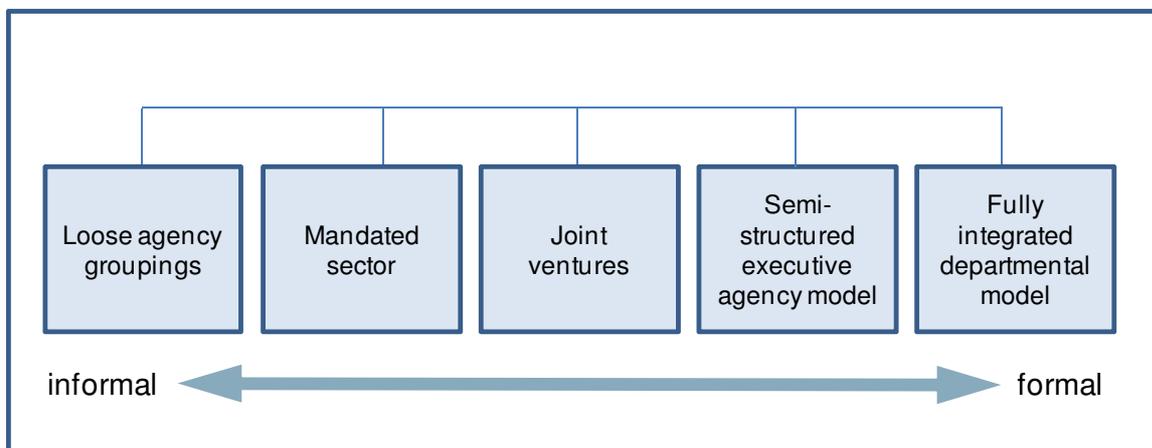
Assuming results can be clearly identified, this paper discusses the characteristics of results that could be best addressed at a sector level. Possible approaches to identifying and defining sectors organised around these results are explored. The paper also considers possible criteria that could be used to assist the selection of appropriate sector arrangements.

This concept of sectors builds on current arrangements, in particular the mandated sector arrangements that already exist in a number of sectors. In these sectors, chief executives are already working together to better coordinate and integrate their efforts – within their agencies and across agencies – in pursuit of shared, sector outcomes. This paper also explores new organisational arrangements that offer sector structures at the more formal end of this spectrum.

Five broad structural approaches are discussed to explore how the use of new organisational arrangements for sectors could support a clearer focus on results, more effective delivery of those results and stronger sector leadership:

- *loose groupings of agencies* and chief executives working together collaboratively to achieve shared results

- *mandated sector* arrangements where a group of chief executives has explicit responsibilities at the sector level rather than individual agencies

- *joint ventures* where groups of chief executives create a formal entity or arrangement to pursue specific shared sector-level results

- an *executive agency* model where the sector agencies and chief executives are formally structured in order to clearly define their respective roles within the sector, and

- a *fully-integrated department* that spans the whole of the sector with a single chief executive.

A wider range of structural options could enable a better match of sector arrangements to the needs and circumstances of each sector, and to the shared results that are being pursued. This could enable the state services to retain the current focus on strong management and performance within agencies and, at the same time, achieve stronger cross-agency leadership and delivery of sector results. In particular, it is possible that the availability of more formal sector arrangements could provide a useful complement and extension to the more informal sector arrangements that are currently in use.

The use of sectors and more formal sector arrangements is likely to be selective rather than comprehensive or uniform. Sector arrangements should be tailored to fit the problem, and no single approach would be appropriate in every situation or for every sector or agency.

The analysis in this paper illustrates the greater focus that clearly-identified results can bring. Organising agencies in sectors around results – using these structural arrangements – could enable them to concentrate more effectively on the leadership and delivery of these results that cross agency boundaries. This clear common purpose could help to focus and galvanise stronger performance by agencies in sectors grouped around those results.

Introduction: Better public services

The current public management system generates strong individual and vertical accountability of agencies to their particular Minister, and focuses on the immediate priorities and deliverables. The incentives for working collaboratively are relatively weak and results that cross agency boundaries can be harder to address. The inflexibility in current organisational arrangements can result in weak customer focus, fragmented decision-making, poor value-for-money and insufficient sector leadership.

This paper is part of a series of backgrounders being prepared by the Secretariat for State Sector Reform to support the work of the Better Public Services Advisory Group. This paper focuses on the possible structural arrangements that can be used to mobilise sectors around specified results: to more effectively tackle the issues that might otherwise fall in the gaps between agency boundaries, while retaining a clear focus on agency performance.

There is a broader spectrum of possible structural arrangements that could be considered to achieve this mobilisation, building on current examples and efforts to work together to address complex, cross-agency issues.

This paper draws on these examples to highlight possible areas of improvement and to explore the issues that are likely to be raised by any of these structural options for more effective sector-level arrangements.

Background and problem definition

Against most international benchmarks, New Zealand has well-regarded state services. However, maintaining reasonable standards will not be enough to meet the current challenges – to meet citizens' expectations of better services, delivered in more immediate and flexible ways, to gain better traction on the results that matter most and, at the same time, to increase the efficiency and effectiveness of state services to deliver more with less.

The strong individual and vertical accountability in the current system of public management can make it more difficult for departments and agencies to work together effectively. The incentives for working collaboratively are relatively weak and successful examples of cross-agency working are often dependent on the personal commitment and relationships of the chief executives involved. More effective mobilisation of agencies and resources as sectors focused around critical results will require the development of new structural arrangements – to enable and hard-wire these new ways of working. These new structural arrangements could achieve stronger leadership and delivery of these sector results, while still retaining a clear focus on agency performance.

Throughout this issues paper we use the term "state services" to emphasise the need to start from a wide concept of public services to ensure that opportunities for improvement are not overlooked. In practice, the concepts discussed in this issues paper are concerned more directly with the executive branch of the public sector and not the judiciary or commercial activities. The analysis is also most readily applied to departments and further consideration will be necessary to more fully explore the implications for Crown entities.

The state services face a significant challenge to gain more traction in achieving complex and long-term results that cross agency boundaries. In particular, the inflexibility in current organisational arrangements can result in:

- *weak customer focus* – to achieve many critical results for New Zealanders several agencies need to work together. Too often the focus of each agency is what suits them as provider, so that the customer is faced with a range of poorly-integrated services that fail to adequately address their needs

- *fragmented decision-making* – individual agencies can protect their own interests rather than focusing on solving the common problem, and current models do not enable collective decision-making and clear accountability at a sector level

- *poor value-for-money* – as a result of duplication of small-scale activities at a sector level, resulting in lost economies of scale; fragmentation, with capability and leadership spread too thinly; and clutter with a large number of priorities across government, and a large volume of reporting on priorities and outcomes at very different levels across a large number of agencies, which can distract focus from the results that matter most, and

- *insufficient sector leadership* – with a single point of decision-making and strong alignment of agencies around this leadership, to provide strategic, long-term advice focused on the critical results at the sector level.

The particular sector-level challenges in these four areas are discussed in more detail in the following sections.

Weak customer focus

Many of the outcomes that matter most to New Zealanders fall across agency boundaries and, often, the state sector struggles to deliver results that match citizens' expectations. These cross-agency outcomes are also often areas where New Zealand performs relatively poorly compared to other countries (eg, youth unemployment and disengagement).

It is often difficult to get traction and urgency on improving performance against these cross-agency outcomes because they do not fall neatly within agency boundaries. The current public management system does not create absolute barriers to joined-up working, and there are many examples where constructive inter-agency work has taken place. However, across the state sector as a whole, there is little incentive to collaborate and little ownership of the outcomes that cross agency boundaries.

Fragmented decision-making

One of the strengths of the current public management system is its ability to create strong incentives to focus on agency performance, reflecting the clear vertical accountabilities. However, this can also mean that the incentives for cross-agency working can be weaker, and results that cross agency boundaries can receive relatively less attention. As a result, the state services do not always act in a coordinated, cooperative manner on the ground.

A variety of approaches have been developed to help overcome the current incentives that inhibit cross-agency working. At present, there are limited and imperfect

mechanisms for agencies to come together to make decisions and to prioritise across agency boundaries in pursuit of cross-agency outcomes. The mechanisms that exist fall short of genuine collective accountability for the shared outcomes. These models tend to be relatively informal and rely on goodwill and good relationships to create stronger cross-agency working. This can result in:

- difficulty moving resources to higher priorities or coordinating on an issue when this involves one agency giving up resources

- strong agency-specific perspectives coupled with an unwillingness to give up leadership rights or allow others to encroach on one's patch

- difficulty overcoming the "everything is (equally) important" perspective to reach cross-agency agreement on the outcomes that matter most and to avoid cross-agency outcomes that are derived and aggregated from current activity of individual agencies

- honest and more transparent performance assessment of initiatives (and robust evaluation) being weak, undermining the ability to prioritise effectively, in particular across agencies

- weak longer-term/strategic policy leadership and capability in some key sectors; and strong incentives to manage the short-term issues within agencies, and

- limited engagement with users and stakeholders – both the provision of information about priorities and performance on cross-agency outcomes and feedback from users about what matters and what works.

Poor value-for-money – duplication, fragmentation and clutter

At present, the focus on individual agencies means that functions and activities can be duplicated across agencies resulting in lost economies of scale. This can also result in fragmentation, with capability and leadership spread too thinly across too many small agencies. There is an opportunity for agencies to work together more effectively at a sector level – to deliver shared outcomes and to manage capability and activities more strategically across the sector. At a minimum, this might involve developing shared back-office functions across agencies. The larger potential gains could come from rethinking service delivery models at a sector level, as an integrated system and across agency boundaries.

There are also a large number of priorities across government generating a large volume of reporting on priorities and outcomes at very different levels across a large number of agencies. The current one-size-fits-all approach to reporting fails to provide the information that really matters and undermines effective scrutiny across a sector. For example, there is limited ability to report at sector level on cross-agency outcomes and, often, different agencies provide parts of the picture but starting at different levels and potentially missing the wider story. This clutter also limits direct engagement with New Zealanders on performance information and limits understanding of what works and what matters.

Insufficient sector leadership

Taken together, these features combine to result in an absence of clear and effective sector leadership. The current public management system encourages chief executives

to concentrate on leading their own agencies and the cross-agency and sector leadership dimensions can be weak.

In some areas, agencies and chief executives are working together to provide some of this leadership. However, these arrangements have multiple lines of accountability and multiple decision-makers that can create ambiguity and conflicting priorities. As a result, there is often limited ability to provide strategic, long-term advice focused on the critical results at the sector level.

The partial and incomplete alignment of agencies around the sector results and leadership can also result in service delivery that is integrated at a relatively superficial level. It can be difficult to capture opportunities to redesign services to operate at a sector level and across agency boundaries – even where the potential gains for customers could be significant.

Analysis: More flexible results-oriented state services

Outcomes are at the core of the current public management system – and underpin planning, prioritising and reporting. The performance of individual agencies in recent years suggests that this approach has been successful in focusing attention on important areas and strengthening the focus of the leadership on a small number of critical outcomes.

This suggests that applying an outcomes-based approach at a sector level to focus on cross-agency issues may enable the problems identified earlier to be addressed. Such an approach would require the development of structural and other arrangements to support the effective operation of such sectors. These sector arrangements could complement the agency accountabilities – to achieve stronger cross-agency leadership and delivery of sector results and retain the clear focus on agency performance.

Results-oriented sectors could be created to focus on a small set of cross-agency results that require agencies to work together more effectively in order to achieve improved outcomes. This approach is based upon a selective focus on a small number of results that cross agency boundaries, rather than the full set of outcomes across the state services. Results are also intended to be specified at a relatively specific and practical level, so that they can be used to focus the efforts of the relevant agencies.

Organising agencies in sectors focused on results could provide a basis for clear and effective sector-level leadership. This would result in fewer, more definitive and more decisive points of accountability and decision-making operating through individual sector leaders and collective sector leadership arrangements. This sector-level leadership and decision-making would need to be supported by stronger policy and finance capability – at the sector level – to enable more strategic policy advice and resource allocation.

Success will require progress on several fronts at once. In some areas, the state services may require new organisational forms, new leadership arrangements and stronger leadership capability at different levels and supported by a broader change of culture. In other areas, this leadership and culture change may be achieved through current organisational arrangements and a sustained focus on agency performance.

It is unlikely that a single approach would fit every circumstance – one size rarely fits all. Consequently, results-oriented sectors are presented as a deliberately selective approach. Not all agencies would need to be part of a sector. The sector-level

arrangements may not cover all aspects of every agency in the sector. The results may be only part of the total activity in the sector chosen because of its importance to that sector's performance, or because it is a critical area where the Government is seeking improvements. As a result, it will remain critical that the public management system as a whole works more effectively – so that the areas not covered by sectors also have strong incentives for improved performance.

Criteria to help select sector arrangements

There is no perfect public management system. The best structural arrangements are able to evolve over time as relative priorities change, new challenges emerge and technological advances create new opportunities to deliver public services in ways that were not previously possible. As a result, the system of government needs to be consistently flexible and resilient so that it can deliver these priorities efficiently and effectively, and so that it can adapt and change at low cost over time.

The performance of the public services depends upon the clarity and focus of the results that they are seeking to deliver. If these results are clearly defined, it would be possible to organise the public services more effectively around them. In some cases, this may mean organising agencies in sectors around particular results that cross agency boundaries. There are a number of criteria that are likely to be important when considering the structural arrangements for a sector, and to achieve an effective public sector as a whole. The key features could include:

- *focus on results* – create sectors where important results cross agency boundaries and/or in areas where the Government is seeking a step-change in performance

- *customer focus* – a strong emphasis on delivery arrangements that are responsive to the needs of citizens

- *decision-making* – to create fewer, more effective decision-points that reflect these sector results, both for the strategic policy direction and advice for the sector, and for the allocation of resources across the sector

- *efficiency and value-for-money* – seeking to minimise fragmentation and duplication, and taking opportunities to realise economies of scale, and

- aligning *leadership and accountability* – to enable more effective leadership of sectors and across the public sector.

In addition, there is also value in considering a wider, system perspective to ensuring the state services collectively are also being designed in ways that are consistent with these criteria (rather than simply optimising within each function or sector). This suggests being deliberate about where the boundaries are drawn around a set of trade-offs, decisions and accountabilities, and hence which decisions are internalised and which are externalised; and being pragmatic to recognise that no one size fits all, and that different arrangements will work better for different sectors.

Taken together, these characteristics suggest a focus on applying new, sector-based structural arrangements to those results that cross agency boundaries could enable improved delivery and better outcomes for citizens.

Organising around sector-level results

A key factor for determining when to create a sector, and for determining which structural arrangements are required to support that sector, is the existence and nature of cross-agency results on which the efforts of the relevant agencies should be focused. The aim would be for the sector results and the supporting sector arrangements to enable genuine prioritisation and decision-making at the sector level (including prioritisation across agency boundaries, functions and resources). Organisation at the sector level could also enable stronger leadership of the sector results, and stronger alignment of resources and service delivery with the needs and expectations of citizens.

This suggests a number of characteristics that could help to distinguish sector results within the wider set of results that have been identified and prioritised, including:

- genuinely *cross-agency* results that are larger than a single agency and that require agencies to work together across boundaries in order to address them

- a *small number* of results (one or two, no more than four) that can galvanise and focus cross-agency activity at the sector level, and that enable prioritisation at the sector level and across agency boundaries

- *selective* – some specific groups of agencies could come together into sectors (while other agencies continue to operate individually), and the sector results would not seek to cover all aspects of each agency in the sector

- *difficult/complex* results, that agencies struggle to achieve on their own and need coordinated cross-agency action to succeed

- *important* results – key issues for the Government, usually involving significant expenditure, where we need to make a real difference for New Zealanders by doing things differently

- *tangible* results – concrete and measurable, that will drive one or two practical actions that could be taken forward by the sector reasonably quickly (rather than high-level, aspirational outcomes), and

- *measurable* – results need to be expressed in measurable terms that can be captured by one or two success indicators for each result, so that the results can be used to define and measure performance (in real-time).

Sector-level decision-making: Strategic policy and resources

An important element of a results-oriented sector is that policy direction and resource allocation could occur at the sector level, rather than within individual agencies. The agencies in the sector could work together to help to translate ministerial priorities and a long-term perspective on the key challenges for the sector into practical results that can focus and galvanise action across the sector. This could involve stronger collaboration and cooperation across the policy and finance functions in the different agencies, or it could involve pooling those resources to create a central, sector-level resource to support strategic decision-making.

Ultimately, a key goal of sector arrangements is to enable a more strategic approach to service delivery and operational functions, taking the sector as a whole as a single

system and looking across agency boundaries. This cross-agency approach to the delivery of the sector results can be supported by strong sector-level policy and finance capability.

Sector-level policy capability

At present, 41 separate agencies have policy responsibilities, and these 41 agencies employ around 2,000 policy full time equivalent employees and receive total policy appropriations of around $500 million. Many of these policy units are small, with significant variation in the unit cost of policy advice, and the average quality of policy advice is relatively low and variable across different policy agencies.

The Review of Expenditure on Policy Advice[1] recommended wide-ranging change to the delivery of policy advice, including the creation of policy hubs. These policy hubs could consolidate and strengthen policy capability in a smaller number of larger policy units, more closely aligned with sector results. (Annex 1 provides a fuller discussion of policy hubs.) Bringing policy capability together in one location creates critical mass and economies of scale – delivering this improved performance at significantly lower aggregate cost – through:

- stronger management and professional leadership

- greater prioritisation and flexibility of policy resources to respond to demand, and to align policy resources with critical results

- increased resilience to changing demands and the movement of staff

- more effective development of policy staff and capability

- the removal of duplication across current policy units

- creating opportunities for single/shared back-office and support functions across the policy hub, and

- achieving greater functional leadership of policy across the state services.

Maintaining a strong connection between strategic policy and operational activities is likely to be a key challenge for any centralised policy hub – so that the policy advice is informed by the practical experience of clients/customers and how delivery works at the front-line, and to avoid "capture" of the policy advice by the operational activities.

Sector-level finance

It is also likely that sectors will require a strategic finance function – to allocate resources across the sector in line with the sector results. A sector chief financial officer could be a key part of the sector leadership team, working with sector leaders to ensure a strategic approach to allocating and using the resources across the sector. This sector chief financial officer could be supported by a strategic finance function that also operates at the sector level.

The sector finance function could support the administration of the sector Votes at the sector level. There may also be a rationale for moving to a single Vote for the whole sector, with different appropriations for the different sector results or sector functions.

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[1]   http://www.treasury.govt.nz/statesector/policyexpenditurereview

This sector finance function could also produce sector-level reporting for accountability purposes and for planning. Sector information could be reported at the sector level and not at the agency level – reducing the volume of reporting and ensuring that the reporting that is produced is more clearly aligned with (and relevant to) the big questions around sector performance against the sector results. This could reduce the burden and clutter of reporting; for example, with a single sector *Statement of Intent*, a consolidated sector-level *Annual Report* and four-year budget plans and other budget planning conducted at the sector level rather than in each agency.

Stronger sector leadership and accountability

A number of existing sectors already have a sector leadership team – drawn from the chief executives of the relevant agencies, and that meets regularly. A results-oriented sector could build on this sector leadership team to create stronger and more formal sector arrangements to respond to increased expectations of cross-agency activities, at the sector level, in pursuit of shared results. As in any team, role clarity will be important.

The composition of the sector is an important factor, as there is value in creating a team that has shared ownership of the cross-agency results, and where everyone is contributing to the collective activity towards the results (ie, there is commitment across all participants). There are some existing sector groupings, where the sector results and service delivery are aligned and where the departments and Crown entities have been working together for some time. These existing sector groupings are likely to endure over time. In other areas, there may be a case for creating a new sector grouping to bring focus and align resources around one or more results where a significant improvement in performance is desired.

Taken together, the aim of a results-oriented sector could be to bring together sectors that are focused and grouped around a small set of shared results and that:

- link agencies or functions with strong causal connections between functions or strong overlapping operational and stakeholder groups together

- pull together departments or functions that directly contribute to common, shared results – to enable a sector-level perspective on service delivery as an integrated system, and

- engage those departments and functions who "have skin in the game" – who are putting resources and commitment into the sector activity and for whom the achievement of the sector results is a critical outcome.

There is likely to be a range of different possible sizes of sector – in terms of the number of agencies involved, the level of resources, the breadth and complexity of the functions and the number and scale of results. Sectors that are too large may become unwieldy – with gaps, silos and coordination problems within the sector. There is also a risk that stronger sectors could create gaps, silos and coordination problems across the boundaries between sectors.

It is likely that sector groupings based on obvious and long-standing interconnections will be more enduring. In these existing sectors, the sector leadership team could continue to coordinate and lead efforts to pursue shared results and the particular focus of the shared results in the sector could evolve over time – as one challenge is ameliorated and another becomes a greater concern. New sectors that are brought together to address a particular result are more likely to be reshaped when that result is

achieved – as the next result may require the attention of a different combination of agencies.

Possible options: Structural arrangements to enable sectors

There is a spectrum of structural arrangements available to support this focus on sector-level results at agency and sector level. These range from relatively informal coordination through to formal machinery of government changes. The basic public sector settings are enshrined in the State Sector Act 1988, the Public Finance Act 1989 and the Crown Entities Act 2004. These settings are fairly flexible and enable a variety of arrangements that could be implemented under current legislation. There is also scope for legislative change to enable new structural arrangements.

Figure 2 outlines five broad structural approaches along this spectrum, including different agency forms, and different mechanisms to achieve greater collaboration around shared results and activities.

Figure 2 – A spectrum of structural arrangements for sectors
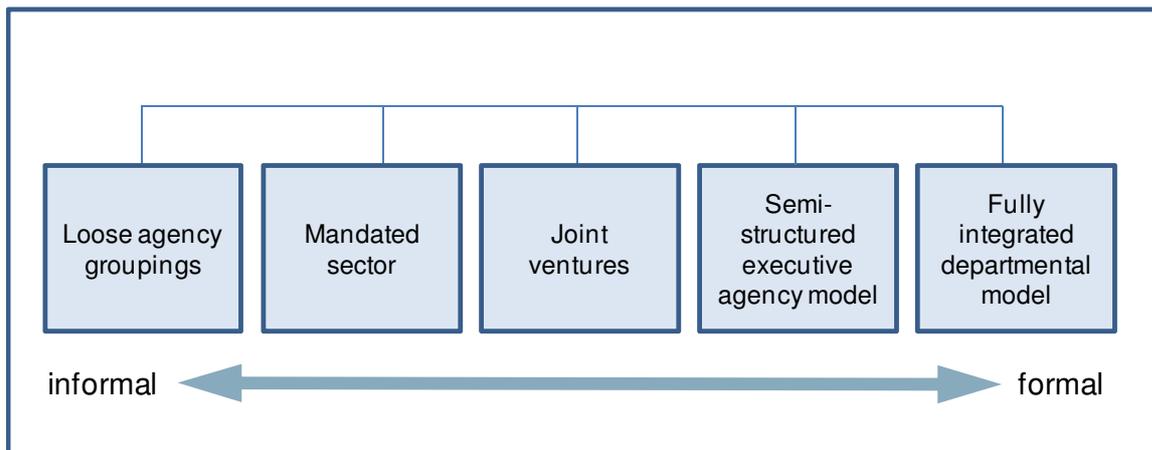
These five structural approaches are discussed to explore how the organisation of sectors could support a clearer focus on results, more effective delivery of those results and stronger sector leadership. These approaches are:

- *loose groupings of agencies* and chief executives working together collaboratively to achieve shared results

- *mandated sector* arrangements where a group of chief executives has explicit responsibilities at the sector level rather than individual agencies

- *joint ventures* where groups of chief executives create a formal entity or arrangement to pursue specific shared sector-level results

- an **executive agency** model where the sector agencies and chief executives are formally structured in order to clearly define their respective roles within the

sector, and

- a *fully-integrated department* that spans the whole of the sector with a single chief executive.

Many functions and results can be successfully delivered at the left hand end of this spectrum, by individual departments and agencies that are able to focus on their core business and that work with other agencies in a relatively loose, informal way as required.

Some results require departments to work together in a more formal and structured way to deliver a shared outcome, with collective accountability for this delivery. For example, in the justice sector, the Ministry of Justice has a mandated sector leadership role, all departments in the justice sector include a common set of sector outcomes in their *Statements of Intent*, and each department is separately accountable for their contributions to these sector outcomes as part of their Vote accountability.

Other results require a high level of collaboration and joint working and, as a result, organising the sector as a single department can be the most effective way to ensure the activities and accountability are effectively shared and aligned. For example, the Ministry of Social Development is a single department with nine business groups that together cover the delivery of welfare programmes and a range of social services, the provision of social policy advice and a strategic sector finance function (to administer Vote Social Development).

The choice of where a particular shared result would fall along this spectrum will reflect the goals that Ministers want to achieve. In general, where Ministers want to achieve:

- better coordination or common frameworks across an area, but not major change, then informal approaches supported by targeted top-down actions on specific issues are likely to be appropriate. This suggests a structure towards the left to middle of the spectrum, and

- stronger leadership or achieve a real change in focus, perspective or delivery methods in a particular area, then more formal structural options could be considered. This suggests an option towards the middle to the right of the spectrum.

The more informal options retain the agency specialisation and focus on their particular functions and results, and the strong vertical accountability for performance coupled with the freedom to manage and innovate. The more formal structural options introduce stronger leadership and sector-level decision-rights to cut through potential disagreements between departments, and a stronger focus on the shared results.

Loose agency groupings

There is a variety of sector arrangements that are currently used to enable a group of agencies to come together around the delivery of shared, sector results. In the following analysis, this paper focuses on departments – partly for simplicity and partly reflecting their formal roles in relation to financial management and the interface with Ministers. Further work will be required to explore the implications of sector arrangements for Crown entities. Key features of current arrangements can include:

- forming a sector leadership team, potentially including an explicit sector leadership role for a lead chief executive (within the team)

- identifying a sector-lead policy department to support this sector-level leadership

- elements of common planning and reporting for sector agencies (eg, shared material in *statements of intent* and producing a sector-level four-year budget plan), and

- Vote arrangements at the sector level (eg, parallel appropriations or pooled funding into a single appropriation).

These loose agency groupings may be sufficient to create a sector grouped around critical, shared results. These features tend to converge on two broad approaches that start to formalise the coordination across a loose grouping. These options are described for departments to simplify the financial arrangements, but these loose sector arrangements could also include Crown entities and other agencies:

- *parallel funding and accountability* – where departments use parallel vertical arrangements so that each is individually accountable for their contribution to the shared outcome. The departments work together to achieve a shared, cross-agency outcome. Each department has a separate appropriation for the shared activity, and is accountable to the relevant Vote Minister for their contribution to the shared results. It is possible to set up parallel appropriations to capture a shared activity but, over time, there is a risk that each department's priorities diverge and their focus on the shared activity weakens. Broadly, this is the model currently in use for the Social Sector Forum, and

- *pooled funding and lead accountability* – where departments transfer funding to a single lead department and have more informal arrangements to capture their shared interest and activity. The departments can pool the funding into a single appropriation and Vote within one department. The chief executive of that department is directly accountable to the Vote Minister for the shared result and/or cross-agency initiative. The other departments have a direct interest in the shared result, to the extent that they are contracted to provide specific services to the lead department. It is also possible to create a collective interest in the shared result across all the departments and chief executives (eg, through a Memorandum of Understanding). However, there is a risk that these arrangements may be overtaken by other priorities over time and they can be reliant on the relationships between chief executives. Broadly, this is the model being used for the current social sector pilots.

However, in many cases, these arrangements will not be sufficient to generate a sector that is able to fully deliver the shared results. In particular, these arrangements are not able to generate a clear single line of accountability and decision-making for the resource and policy prioritisation decisions at the sector level and for the shared results.

Mandated sector

A mandated sector could be defined in terms of its constituent departments and Votes, and could have a formal sector leadership board that included the departmental chief executives. This would create a single collective decision-making body with a single line of accountability.

A mandated sector would need to have a small number of shared results that encompass and drive most of the activity across the sector, so that most/all of the activity of each department contributes to the sector results. As a result, it is likely that either the whole

of each department would be within the sector, or large discrete parts of each department (ie, a whole Vote) for departments with multiple roles and Votes.

Mandated sector arrangements could build on the current examples of sector leadership teams and sector leadership boards. A key feature of a mandated sector would be that the sector leadership board would be formally recognised as a separate entity in the State Sector Act 1988 (eg, in a new schedule). This could be reflected in the Public Finance Act 1989, so that the sector leadership board could jointly administer one or more (sector-level) Votes, and could make decisions that affect the individual agencies in the sector.

The sector leadership board could have an explicitly strategic role – broadly, to provide sector-level advice, prioritisation and service decisions at the output level. Individual chief executives would continue to determine the delivery of those objectives within this strategic framework, and would continue to be the employer within each agency.

In a mandated sector, strategic decision-making and accountability would be held collectively at the sector-level through the sector leadership board. The sector leadership board would provide advice on policy and resource priorities collectively, and would be collectively accountable for the results delivered using those Votes. The sector leadership board could delegate particular strategic powers, functions and resources to individual chief executives (eg, where particular functions had limited cross-agency dimensions), but the ultimate accountability – for the delegation – would remain with the sector leadership board. The sector leadership board could operate entirely collectively, with a chair who was first among equals, or could have a lead chief executive.

The sector leadership board could be supported in its role by a lead policy department, or a dedicated sector-level policy hub. The lead policy department or policy hub could provide strategic policy, research, evaluation and monitoring across the sector. The sector leadership board could also include a sector chief financial officer, supported by a strategic finance function that could span the whole of the sector.

A mandated sector could provide a single shared decision-making and prioritisation process across the sector's appropriations and Votes. Among other things, this would suggest that a mandated sector would have one sector *Statement of Intent*, a single consolidated sector *Annual Report* and one sector *Four-Year Budget Plan* – and that these documents would replace or subsume any agency-level reporting.

Overall, this option would mandate and create a formal sector structure that locks the constituent departments together with collective responsibility for the common priorities and leadership, while retaining their separate identities (and full range of functions). A mandated sector would be able to present a joined-up face to Ministers and Parliament – with a single sector-level leadership, priorities and resources. Ministers would still have the choice over how they arrange themselves relative to the mandated sector.

Joint venture

A joint venture could be used to create more formal sector arrangements, where there are specific results that require deeper collaboration and integration in their delivery. A joint venture could be an ad-hoc arrangement between a group of chief executives. In practice, the most likely model is that a joint venture would be an extension of a mandated sector – where the formal shared leadership and collective responsibility of the sector leadership board is used to oversee the delivery of a specific programme or initiative.

Broadly, in a mandated sector, the sector leadership board provides strategic direction, decision-making and accountability at the sector level – to coordinate the delivery of

sector results by individual agencies working collaboratively and in parallel. A joint venture builds on this, by enabling the sector leadership board to have direct oversight of a sector-level programme (eg, that draws together resources and works across agency boundaries).

In this way, a joint venture would involve a focused, intensive level of joint working on particular sector results, and possibly a single programme. The sector leadership board could continue to coordinate and lead wider cross-agency activity in the sector. In addition, the sector leadership board could form a committee to govern the specific programme or activities where they have chosen to pool resources and efforts in order to work collectively.

A joint venture would have similar formal sector structures around decision-making and the interface between the sector leadership board and Ministers (in particular, around policy and resource prioritisation) as for the mandated sector option.

Semi-structured executive agency model

Executive agencies are a significant feature in many public management systems, in particular in the United Kingdom and Australia. In general, executive agencies are focused on the delivery of a small number of clearly identifiable services, and tend not to have strategic policy roles. Executive agencies have separate, direct accountability for their delivery activities (to ministers and to parliament) and are part of a department that provides the broader strategic and resource context.

In a New Zealand context, an executive agency model does not currently exist and would require legislative change to enable such a model to be created. The nearest current parallel is the semi-autonomous body form.[2] (Annex 2 provides more discussion of executive agencies.)

In practical terms, an executive agency could be like a separate entity located within a host department. The director of the executive agency would have the status similar to that of a chief executive in the legislation so that functions, powers and accountability could be transferred to the director for decisions within their remit. The location within the host department would ensure the clear definition of respective roles and a formal role for the departmental chief executive in setting performance expectations and monitoring and assessing performance for the executive agency director.

Executive agencies could be used as part of a set of sector arrangements that formally structure the sector agencies and chief executives in order to clearly define their respective roles within the sector. Existing departments could be restructured to form executive agencies that are focused on the delivery of the key services across the sector and a single host department could hold the strategic policy and finance functions for the sector.

This model would use the structural form of the different agency types to clearly define and lock-in their respective roles in the sector. Executive agencies would retain their separate identity, they would be directly accountability to Ministers for service delivery and would operate as self-contained, separate entities. At the same time, executive agencies would operate within the sector-level policy settings and resource allocation, and that sector-level strategic direction would be supported by the host department (eg, the host department would act as a policy hub, would provide the strategic sector-level finance function, and would report to Ministers at this strategic level).

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[2] A semi-autonomous body is part of the parent department and, while it has significant operational freedom, the chief executive of the parent department remains ultimately accountable for its performance.

This model would mean that the departmental chief executive would have a clear role as the sector leader, supported by the directors of the executive agencies in this strategic role. The directors of the executive agencies would be able to provide strong, clear leadership of each service delivery function.

As a result, this executive agency model could be particularly relevant where there is a need for strong, clear leadership and direction across the sector, and the particular results and services that need to be delivered are sufficiently complex and demanding that each merits separate leadership and delivery.

Integrated department

There are a number of examples of sectors that are currently delivered as a single, integrated department. This model uses the departmental chief executive to provide the single point of leadership and decision-making for the sector and internalises the strategic policy and resource decisions within the department.

Service delivery functions are generally organised as business groups or business units within the department. As a result, the chief executive is responsible for all of the service delivery functions, in addition to the strategic policy direction and resource allocation.

Compared to the executive agency model, this integrated department can result in demanding management spans for the chief executive. This, in turn, may be one reason why departments in New Zealand tend to be relatively smaller than in other jurisdictions and why New Zealand has a relatively large number of departments with relatively small areas of responsibility compared to other countries.

Significant service delivery functions are currently delivered as business units within departments (eg, Work and Income is a business unit of the Ministry of Social Development and the Immigration Service is a business unit of the Department of Labour.)

The key attractions of the integrated department model for a sector are that there is a clear single point of leadership and decision-making, that policy and operations are closely integrated and able to inform each other and that there is the greatest flexibility to shift resources and structure within the department to match changing priorities and pressures.

Sector leadership

Current relatively informal sector arrangements largely rely on willing coordination between chief executives. Even when Cabinet mandates a lead, the levers and responsibilities may be limited to specific report backs or funding pools reliant on influencing others. Stronger sector leadership is likely to be an important component of any sector-based approach to cross-agency outcomes.

There are several possible approaches for providing clear and effective leadership of results-oriented sectors. The organisation of agencies around results in sectors would clarify and strengthen the sector leadership roles that the different chief executives could have within the sector leadership team. These sector leadership roles could be reflected in their performance expectations: including the formal expectations set by the State

Services Commissioner. The sector role would also influence the expectations that are set for individual agencies.

- In some sectors, the leadership could be provided by the sector leadership team operating entirely collectively – with a chair who is first among equals to convene and organise the meetings of the sector leadership teams. In this example, the sector leadership team could be collectively responsible for the use of resources across the sector, to deliver the sector results.

- In other sectors, this collective leadership could be combined with more of an individual sector leadership role. For example, the sector leadership team could include an explicit mandate for a sector lead chief executive to convene and lead the team, with the ability to resolve disputes or deadlocks (in effect a "casting vote").

- There could also be sectors with a clear, single sector leader role (eg, as the chief executive of the host department in an executive agency model or as the chief executive of an integrated department).

In each case, the sector leadership – either collectively or individually – could administer the sector Votes and hold the accountability for financial and non-financial performance. The sector leadership could also hold the primary relationship with the sector Minister(s), and could be supported by the strategic policy advice, finance, research, evaluation and monitoring functions across the sector.

In addition, a mandated sector leader could also have a formal role in the appointment of other chief executives in the sector (eg, of other departments or executive agencies), in setting their performance expectations and in assessing their performance. In this respect, the sector leader could operate in conjunction with the State Services Commissioner.

Use of boards and panels to support sector leadership

To achieve stronger executive leadership of a sector, a sector leadership team could be supplemented with external non-executive directors to form a sector leadership board. For example, the Treasury Advisory Board currently comprises the executive leadership team and three non-executive directors. This could strengthen and support the leadership and strategic direction of the sector, by providing additional skills and expertise for chief executives to draw upon.

To strengthen the governance of a sector, a ministerial advisory panel could be created to oversee the operation of the sector and to report directly to Ministers on progress and performance. Such a panel could be used to reinforce a stronger focus on the specific sector results and cross-agency activities, and to support Ministers to engage effectively with the sector. Such panels tend to have a time-limited focus on strategic advice on the direction of the area in the area (eg, the Welfare Working Group or the Tax Working Group) but others can have a more long-standing role to provide a separate stream of advice and monitoring of the performance in the shared activity (eg, the social housing panel has an ongoing role to report on the performance of the social housing sector).

Interface between Ministers and sectors

It will be important for Ministers to organise themselves in a way that enables an effective interaction with a sector, and that supports the required resource and policy prioritisation and decision-making. There are a number of ways that Ministers currently organise themselves around particular results and activities that could be applied to a results-oriented sector:

- identifying a *lead Minister –*for example, creating a new portfolio (or using an existing portfolio) to provide a clear lead Minister (eg, Minister for the Canterbury Earthquake Recovery)

- convening a *group of interested/relevant Ministers* – for example, in the way that a group of Ministers has been created around the reform of social housing and the work required for the scheduled reports to Cabinet

- creating an *ad-hoc Cabinet Committee* – for example, the ad-hoc Cabinet committee on the Rugby World Cup; or

- using an *existing standing Cabinet Committee* – for example, the Social Sector Forum reports to the Social Policy Committee.

Conclusion

The analysis in this issues paper suggests that there may be opportunities to use more effective structural arrangements to organise agencies in sectors around results – to focus more effectively on the leadership and delivery of these cross-agency outcomes. This could complement wider efforts to identify and prioritise results, and to organise the public services around these results.

Sector results have been defined in the context of results-oriented sectors, and this has highlighted the possibility of using a clear common purpose to help focus and galvanise stronger performance against cross-agency outcomes, by agencies in sectors grouped around those results.

This concept of sectors builds on current arrangements, in particular the mandated sector leadership teams that already exist in several sectors, where chief executives are already working together to better coordinate and integrate their efforts – within their agencies and across agencies – in pursuit of shared, sector outcomes.

A spectrum of different sector arrangements is explored and it is likely that different arrangements will be appropriate in different sectors. In particular, it is possible that more formal sector arrangements could provide a useful complement and extension to the more informal sector arrangements that are currently in use.

These sector arrangements could support clearer and more effective leadership, focused on the sector results. This sector leadership could provide fewer, more definitive and more decisive points of accountability and decision-making, and could be supported by ministerial arrangements that are also organised around the sector results.

Annex 1: Policy hubs

A policy hub is a centre of excellence for policy analysis and advice. The development and delivery of policy advice involves a range of generic, transferable skills and competencies that can be applied to different policy areas and issues. The primary aim of a policy hub is to provide more strategic, consistently higher-quality policy advice, and to better align the policy capability with the results that matter most (eg, bringing together policy hubs around the key results, and aligning policy hubs with results-based sectors where these are created).

Policy hubs would typically provide advice to a number of Ministers on a number of (related) portfolios and issues. Policy hubs would also provide policy capability to a number of operational delivery agencies within those portfolios. For example, the Ministry of Economic Development currently provides advice to 10 different Ministers on 10 portfolios across six Votes. For example, the Department of Internal Affairs has created a single internal policy hub providing policy capability for its different operational business units.

Why create policy hubs?

Bringing this policy capability together in one location creates critical mass and economies of scale – delivering this improved performance at significantly lower aggregate cost – through:

- stronger management and professional leadership (large policy units with dedicated policy managers and senior managers, and the intellectual leadership to lead and develop junior policy analysts)

- greater prioritisation and flexibility of policy resources to more efficiently respond to demands, and the alignment of policy resources with the strategic priority results (at present there is a risk that policy staff in some agencies are kept busy with relatively low-priority work, while there is excess demand for policy advice from other agencies forcing the use of expensive consultants to fill gaps in core capability)

- increased resilience to changing demands and the movement of staff (key person risks)

- more effective development of policy staff through a clearer career structure

- the removal of duplication (eg, reducing fixed costs across small policy units, removing duplication of activity between monitoring departments and Crown entities, reducing inter-agency consultation processes, reducing second-opinion advice and second-guessing, etc.)

- creating single/shared back-office and support functions across the policy hub (as many small policy shops are separate departments at present), and

- achieving greater functional leadership of policy across the state sector, distributed to a small number of broad sectors and/or subject areas.

The Review of Expenditure on Policy Advice[3] recommended wide-ranging change to the delivery of policy advice, including the creation of policy hubs. At present, 41 separate agencies have policy responsibilities (see Table A2 for more details). These 41 agencies employ around 2,000 policy FTEs, and total policy appropriations were around $500 million in 2010/11.

Many of these policy units are small – around half have less than 20 full time equivalent policy staff – and together this half accounts for less than 10% of total expenditure on policy advice. The Review also found significant variation in the cost of policy advice with one policy full time equivalent employee typically costing between $100,000 and $400,000 depending on the agency. This wide range of values is likely to reflect a range of factors, including different practice in allocation of overheads, the seniority of staff, the use of external expertise and the identification of full time equivalent employees relative to funding.

The New Zealand Institute of Economic Research Inc. (NZIER) benchmarked the quality of policy advice in 20 policy agencies in 2010, and found that the average quality of policy advice was relatively low and variable across different policy agencies (Table A1).

Table A1: NZIER assessment of average quality of policy advice

Group	Mean range	Number of agencies
High (very good to excellent)	Over 8	0
Respectable (good: goes beyond the task somewhat)	7½ to 8	5
Adequate	7 to 7½	5
Low (borderline: does the job but with risks; or lower)	Below 7	10

Design issues for policy hubs

- A policy hub could focus on strategic policy (eg, the high-level policy direction and resource allocation at the sector level, likely with a focus on supporting Ministers).

- A policy hub could include operational policy, the more detailed policy settings to give effect to the strategic decisions (eg, the design of regulatory and funding models for activities within a sector).

- A policy hub could include research and evaluation, at either the strategic level to support strategic policy and/or at the more detailed level to measure and monitor the performance of specific programmes.

Maintaining a strong connection between strategic policy and operational activities is a key challenge for any centralised policy hub – so that the policy advice is informed by the practical experience of clients/customers and how delivery works at the front-line. This also avoids the risk that the operational agencies seek to re-establish a policy capability over time. At the same time, it will be important to avoid "capture" of the policy advice by the operational activities (eg, so that the policy hub defends current

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3   http://www.treasury.govt.nz/statesector/policyexpenditurereview

delivery rather than looking widely at alternative models and looking critically at current performance).

This suggests that it will be important for the operational agencies to "own" the policy hub as a shared service provider to them – in particular, so that they draw on the policy hub staff when they need policy input into the development of corporate strategic documents (including co-locating policy staff into the operational agency for periods of time). This could be reinforced by a significant level of secondment and interchange of staff between the policy hub and the operational agencies.

Consideration of these issues will influence judgements on the scope of the policy hub (eg, in terms of strategic policy, operational policy and research and evaluation).

International experience with policy hubs

The United Kingdom and Australia have around 20 substantive policy departments. This suggests there may be opportunities to consolidate policy advice into a smaller number of policy hubs in New Zealand.

The largest policy departments in the United Kingdom and Australia are significantly larger than current policy functions in New Zealand. For example, the Australian Treasury has around 1,000 staff and the United Kingdom Treasury has around 1,250 staff in total – in both cases the majority will be policy staff, as neither Treasury has significant operational responsibilities. This suggests that size in terms of number of staff is unlikely to be a constraint on policy hubs in New Zealand.

It is likely that the management span of control is likely to be a bigger constraint on the size of a policy hub. It would be difficult for a single policy hub to cover different sectors with different stakeholder models and different core policy frameworks – and the synergies in bringing together policy staff from these different areas may be limited.

There are a number of examples of agencies with significantly broader areas of responsibility than the equivalent policy agency in New Zealand. For example, in Australia, the Department of Education, Employment and Workplace Relations broadly covers the same policy issues as the Ministry of Education and the Department of Labour in New Zealand. Similarly, the Department of Business, Innovation and Skills in the United Kingdom covers the same policy issues as the Ministry of Economic Development, the Ministry of Science and Innovation and parts of the Department of Labour and Ministry of Education in New Zealand.

Table A2: Agencies with policy responsibilities

Agencies with policy responsibilities	Policy Advice Expenditure 2010/11 ($m)	Agency Type (public service departments unless indicated)
Accident Compensation Corporation	0.76	Crown agent
Ministry of Agriculture & Forestry (including Fisheries)	16.35	
Alcohol Advisory Council	0.16	Autonomous Crown entity
Department of Building & Housing	6.83	
Canterbury Earthquake Recovery Authority	not known	
Department of Conservation	2.03	
Department of Corrections	4.67	
Crown Law Office	0.68	
Ministry for Culture & Heritage	4.69	
New Zealand Customs Service	5.13	
Ministry of Defence	4.85	
Ministry of Economic Development	42.34	
Ministry of Education	13.97	
Ministry for the Environment	32.06	
Environmental Protection Authority	*1.19*	Crown agent
Ministry of Foreign Affairs & Trade	102.91	
Ministry of Health	27.02	
Inland Revenue Department	9.81	
Department of Internal Affairs	14.55	
Ministry of Justice (including OTS)	24.53	
Department of Labour	36.84	
Land Information New Zealand	2.97	
Law Commission	4.52	Independent Crown entity
Te Puni Kōkiri	24.57	
Ministry of Pacific Island Affairs	1.80	
Department of Prime Minister & Cabinet	5.24	
Pharmaceutical Management Agency	not known	Crown agent
New Zealand Police	3.44	Non-public service department
Office of the Privacy Commissioner	not known	Independent Crown entity
NZ Productivity Commission	*4.69*	Independent Crown entity
New Zealand Qualifications Authority	0.93	Crown agent
Ministry of Science and Innovation	8.86	

Ministry of Social Development	35.51	
Sport & Recreation New Zealand	1.13	Crown agent
State Services Commission	2.64	
Statistics New Zealand	0.31	
Takeovers Panel	0.16	Independent Crown entity
Tertiary Education Commission	2.61	Crown agent
Ministry of Transport	27.20	
The Treasury	48.01	
Ministry of Women's Affairs	3.40	
Ministry of Civil Defence & Emergency Management (DIA) *Ministry of Consumer Affairs (MED)* *Social Housing Unit (DBH)* *Office of Treaty Settlements (MoJ)* *Ministry of Youth Development (MSD)*		Semi-autonomous bodies – with policy role as part of the relevant department

Source: Review of Expenditure on Policy Advice and Secretariat analysis.

Annex 2: Executive agencies

Executive agencies are a significant feature in many public management systems, in particular in the United Kingdom and Australia. In general, executive agencies are focused on the delivery of a small number of clearly identifiable services, and tend not to have strategic policy roles. Executive agencies have separate, direct accountability for their delivery activities and are part of a department that provides the broader strategic and resource context.

- In Australia, Centrelink (broadly equivalent to Work and Income), the Child Support Agency and the Australian Agency for International Development are among around 24 executive agencies.

- In the United Kingdom, the Highways Agency, HM Courts Service, Identity and Passport Service, Job Centre Plus (equivalent to Work and Income), National Offender Management Service (equivalent to Corrections), Skills Funding Agency and the United Kingdom Border Agency are among around 52 executive agencies.

In a New Zealand context, an executive agency model does not currently exist and would require legislative change to enable such a model to be created. The nearest current parallel is the semi-autonomous body form.[4] If an executive agency model were created, it would be worth testing whether the semi-autonomous body form is still required as a separate option, or whether it could be incorporated in the range of executive agency options.

In practical terms, an executive agency could be more like a separate entity located within a host department that is distinct from, but still able to draw upon the resources of, the host department. The key features of an executive agency could be:

- the director of the executive agency would have the status of a chief executive in the legislation so that functions, powers and accountability could be transferred to the director for decisions within their remit

- the director of the executive agency would be directly and separately accountable to Ministers for delivery of outputs and the performance of the executive agency

- the executive agency would operate within a policy and resource framework set by the Minister and parent department (set out in a Framework Document[5])

- the executive agency could either have its own Vote for which it is accountable or operate via a Vote in the parent department, and reporting could either be separate or part of their parent department's report. This flexibility would allow

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[4] A semi-autonomous body is part of the parent department and, while it has significant operational freedom, the chief executive of the parent department remains ultimately accountable for its performance. As a result, the split accountability between the departmental chief executive and the head of the semi-autonomous body has been a source of some tension.

[5] For example, the Australian Treasury and the Australian Taxation Office have a Memorandum of Understanding that formalises their respective roles: http://www.treasury.gov.au/documents/1362/PDF/ATO_Treasury_Protocol.pdf

for tailoring to each function's particular circumstances

- it is still legally part of the parent department and its employees (including the head) would be public servants employed by the parent department, and

- it could have a leadership board, which could include external members.

In essence, an executive agency model would provide for operational functions that operate independent of the host department, and that are closer to Ministers and the host department than the current Crown entity model.

Sector arrangements using executive agencies

Executive agencies could be used as part of sector arrangements that formally structure the sector agencies and chief executives, in order to clearly define their respective roles within the sector. Existing departments could be restructured to form executive agencies that are focused on the delivery of the key services across the sector, and a single host department could hold the strategic policy and finance functions for the sector.

This model would use the structural form of the different agency types to clearly define and lock-in their respective roles in the sector. Executive agencies would retain their separate identity and accountability for service delivery and would operate as self-contained, separate entities. At the same time, the executive agencies would operate within the sector-level policy framework and resource allocation, and that sector-level strategic direction would be supported by the host department (eg, the host department would act as a policy hub and would provide the strategic sector-level finance function).

This model would mean that the departmental chief executive would have a clear role as the sector leader, supported by the heads of the executive agencies. The heads of the executive agencies would be able to provide strong, clear leadership of each service delivery function.

As a result, this executive agency model could be particularly relevant where there is a need for strong, clear leadership and direction across the sector, and the particular results and services that need to be delivered are sufficiently complex and demanding that each merits separate leadership and delivery.