

OCCASIONAL PAPER

No. 1

***Assessment of the State
of the
New Zealand Public Service***



**STATE SERVICES
COMMISSION**

**Te Komihana
O Ngā Tari Kāwanatanga**

This paper assesses

aspects of

the New Zealand Public

Service, focusing on its

fitness for doing the

business of government.

It draws largely on

information collected

from within the NZPS by

the State Services

Commission. The paper

identifies a number of

risks to the future

performance of the Public

Service and outlines

possible lines of inquiry.

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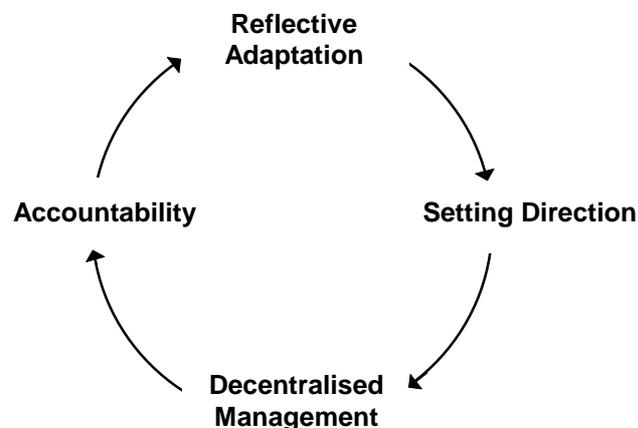
Introduction

While much has been written about the New Zealand Public Management Model (NZPMM), there have been few systematic and empirical evaluations of its effectiveness. Recent State Services Commission (SSC) work, such as the departmental performance assessment process, the review of human resource capability in the New Zealand Public Service (NZPS), and the review of the implementation of strategic management arrangements in government, have given the SSC a more reliable view of the state of the NZPS. In making this assessment, the Commission has examined a range of empirical information specific to the state of the NZPS. This paper assesses the Public Service, and adds to our understanding of the continuing reform of public management. The paper does not provide policy conclusions.

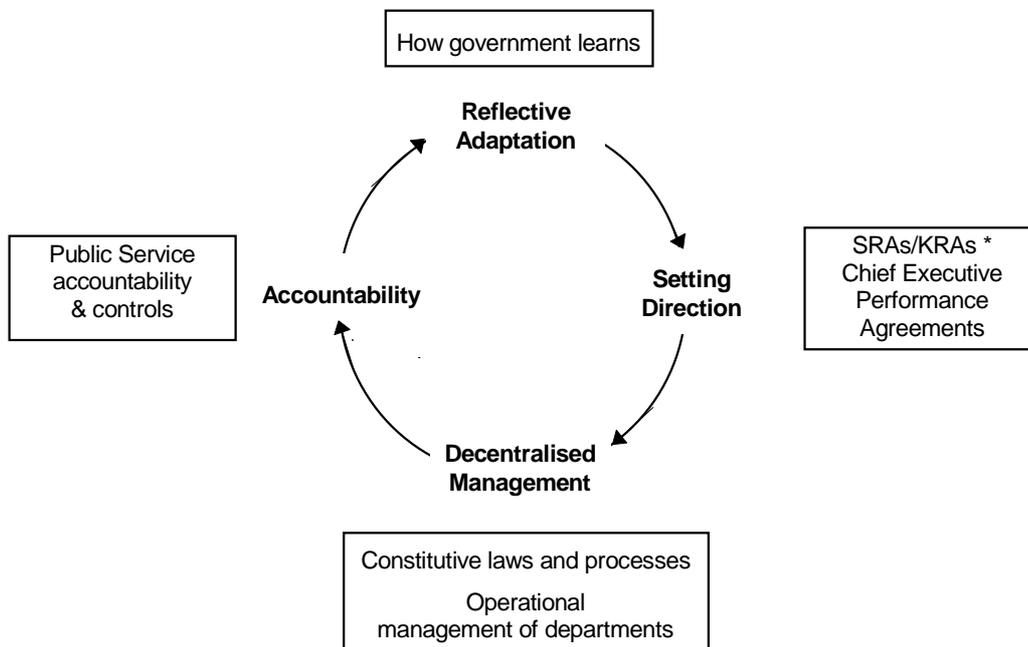
The premise of the paper is that complex organisations have at least four essential and related elements to ensure that their businesses succeed. These are:

- *setting direction*
- *decentralised management*
- *accountability*
- *reflective adaptation* (learning and changing).

All complex organisations need to establish strategic direction, give managers the freedom and authority to achieve results, hold managers accountable for those results, learn from experience, and feed those lessons into the strategic development of the organisation. The principal relationship is circular, with each element supporting and requiring the next:



These same elements are necessary for government, and the scheme below identifies the main features of each element for NZPMM.



* SRAs/KRAs or Strategic Result Areas and Key Result Areas

Aspects of the NZPS are analysed in terms of these elements to see how well things are working in practice. The effects of three key pieces of legislation, *Public Finance Act 1989*, *State Sector Act 1988*, *Official Information Act 1982*, are also considered. Nine factors of particular importance in the operational management of the NZPS are discussed in detail. These are *leadership*, *strategy*, *finance*, *people*, *information*, *business methods*, *risk management*, *achieving results*, and *integrity*.

Setting Direction	Decentralised Management	Accountability	Reflective Adaptation
SRAs KRAs Budget	<ul style="list-style-type: none"> Constitutive factors <i>Public Finance Act 1989</i> <i>State Sector Act 1988</i> <i>Official Information Act 1982</i> CE Performance Agreements Operational factors Leadership Strategy Finance People Information Business methods Risk management Integrity Achieving results 	Accountability documents	Learning and changing in government

Shape and operation of the NZPS

The first schedule of the *State Sector Act 1988* lists the departments of State constituting the NZPS. The number of departments has stayed fairly constant over the 11 years since 1987 (38 in 1987; 39 in 1998). In that time, little else in the NZPS has remained constant. In March 1987 there were some 72,400 permanent public employees in the Public Service, nominally employed by the SSC under a complex, centralised wage fixing system, which included occupational classification, job grading and collective determinations of pay and conditions. At 30 June 1997 there were some 31,662 public servants employed by departmental chief executives on a similar basis to their private sector counterparts.

Overlaying the various institutional, legal and political considerations which shape the NZPS is a management system designed to ensure that the organisation works effectively for the government of the day. The management system has arrangements for:

- setting direction and establishing priorities for the whole NZPS
- decentralised management of departments
- accountability and control.

Essential to the long-run effectiveness of the NZPS is one further capacity: intelligent reflection on the management system as a whole, and adaptation of that system as required. This project is one attempt to ensure that evaluation and learning occurs and informs strategic developments throughout the Public Service.

The paper is in five sections. The first four describe and assess elements of the NZPMM. The final section presents an overall assessment summarising the main risks to future performance.

Direction and priorities

Government is an extensive, diversified enterprise whose effective operation depends on coordination among a large number of people who make and implement decisions. The framework for setting direction and establishing priorities within central government, the domain of strategic management, is still evolving in New Zealand, but the following are the essential features.

Strategic Result Areas (SRAs) are cross-portfolio policy objectives established by Cabinet. An SRA is a mechanism intended to ensure that departments work towards Government's priorities and that scarce resources are targeted at selected objectives.

Key Result Areas (KRAs) are a small number of mid range (two to three year) deliverables that anchor departments (via the chief executives performance agreement) to government's policy directions.

Chief executive performance agreements (CEPAs) outline the responsibilities of chief executives. Chief executives are appraised against their performance agreements to facilitate the long-term development of the chief executive and their department. (KRAs are one aspect of CEPA).

A number of other government statements and processes act as long-term direction setting mechanisms (e.g., *Budget Policy Statements, Estimates of Appropriation, Cabinet committee system, legislation, etc.*). Together these features enable the government management system to translate political intent into administrative action and results.

How well is the government management system working?

Assessment

A SSC study¹ to address that question reached largely positive findings. Overall, the SRA/KRA system has clarified the strategic objectives of government, enabled departments to align their activities with those objectives, and improved coordination and cooperation across the NZPS. The NZPS expressed a high degree of support for the strategic management system because it has improved the 'strategic conversation' between Ministers and chief executives.

There has been a marked improvement in the quality of KRAs since their introduction, especially in their links to work in other departments, their focus on medium-term outcomes and attention to the ownership interest. KRAs are a useful tool for chief executive performance assessment; they are also used by chief executives to motivate staff. Yet, the overall standard is uneven: too many KRAs still lack sufficient focus on results, and too many milestones lack challenge.

Although the SRA/KRA framework has won widespread support, the Budget remains the most powerful expression of strategy. The main area for improvement identified by the KRA study arises from the weak connection between strategy and spending. This partly reflects the difficulty of making cross-portfolio tradeoffs, and partly the poor coordination, historically, of the Budget and KRA timetables.² There is also a tension between the Budget as strategy and the Budget as an instrument of strategy: the dynamics of the Budget process make it imperfectly suited to the task of strategic management.

Governments need better information about the effects of previous spending decisions. The NZPS does not yet evaluate the contribution of outputs to achieving outcomes, although there are several reasons why this should be done. The *Public Finance Act 1989* distinguishes between outputs and outcomes for accountability purposes, because the achievement of outcomes is rarely within the control of a department. Although nominally responsible for outcomes, Ministers have no way

¹ *Strategic Management in the Public Service: A Review of the Implementation of Key Result Areas 1994-1997 - Stakeholder Perspectives*, SSC, 1997.

² The timetabling issue was resolved in 1997.

of determining progress toward them except through their departments, but they have little incentive to purchase this advice. These include, for a variety of reasons:

- the relatively short tenure of most Ministers in any one portfolio
- the pressure to attend to urgent and/or immediate priorities
- the risk of bad news
- the uncertain public reaction to any claims of achievement in respect of outcomes.

Schick's³ analysis of the output/outcome problem led him to recommend a new way of looking at outcomes: not as measures of impact, but as indicators of direction toward a government's objectives. In his view, the thing that most matters about outcomes is that government pays attention to them. As the annual exchanges among and between Ministers and officials over SRAs and KRAs become more familiar and interactive, it is expected that demand will grow for strategic decision-making based on relevant assessments of progress towards a government's objectives.

Most conventional private sector ideas about strategic management translate poorly into the public sector. Government is not a business (in the sense understood in the private sector) and will seldom have a single, coherent sense of purpose. A government's room for manoeuvre is heavily constrained by constitutional, legal, social and historical obligations and expectations. For a government, what matters more than the specific mechanisms is the extent to which Ministers and officials are:

- willing and able to take longer-term decisions towards specific priorities
- committed to allocating the resources required to implement strategic decisions effectively
- prepared to share the risks arising from those decisions
- open to balanced information about the consequences of those decisions.

Initial indications suggest that the new strategic framework for decision-making in government has generated considerable energy, enthusiasm and creativity within the NZPS, and provides Ministers and chief executives alike with a means of injecting a sense of purpose into the daily business of government. The full benefits of the framework, however, will not be realised until a strategic management methodology has a more pronounced effect upon budget decisions and prompts a more thorough and systematic approach to assessing progress towards government objectives.

³ A. Schick, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, SSC, 1996.

Summary

Setting long-term direction and establishing priorities in any strategic sense of the word have improved in government with the introduction of SRAs and KRAs, but the decision-making framework of government favours the momentum of past decisions, change at the margin, and relative lack of focus. Progress may be realised through improvements in the strategic phase of the Budget process.

Decentralised management

The NZPS operates a decentralised management system with chief executives exercising considerable discretion over organisational matters, including internal structure, management systems and controls, human resource management, service delivery methods, investment in assets, external relations, and the intangibles of leadership and culture. Although chief executives must comply with a range of centrally managed requirements which limit their autonomy, they still have a real and substantial management task to perform.

The *State Sector Act 1988*, and the *Public Finance Act 1989* provided the framework for reform, and the climate for the NZPS to give increased attention to contemporary and innovative management theory and practice. The results are in abundant evidence: strategic business plans, quality improvement and customer service techniques, innovative employment and compensation schemes, organisational development initiatives, use of information technology to revolutionise business processes, and effective marketing and public relations campaigns.

To assess the state of decentralised management in the NZPS, two dimensions must be considered. The first is *constitutive* – the legal framework and the formal instruments which shape the management task. The second is *operative* and relates to the functions of management. In many ways, decentralised management is the pivotal instrument of New Zealand's reforms: the critical element on which the reforms will be judged. It is now examined in detail.

Assessment: constitutive factors

Schick⁴ noted that a government's interests as purchaser and owner tend to pull Ministers in opposite directions: the former towards a short-term focus on least cost and delivery of outputs; the latter towards a longer-term focus on cost-effectiveness and organisational health and capability. In one sense, the purchase interest is underpinned by the *Public Finance Act 1989* and the ownership interest by the *State Sector Act 1988*. The Morris report on the *Cave Creek* tragedy also noted the tension between the two statutes, and the different incentives that they create for Ministers and chief executives alike. Some tension is inevitable and probably healthy.

⁴ *Ibid*

In a mature government management system with relatively stable costs, the *ownership* dimension should provide Ministers with a sure and meaningful grip on performance, by recognising the importance of leadership, organisational culture and public-regarding behaviour or consideration of the public good, in a high-performing NZPS. *Long-run cost effectiveness* is the dimension of the *ownership interest* that provides the appropriate perspective on the *purchase interest*.⁵ Schick's view is that budget decisions are best placed in a longer-term context, with greater use of multi-year appropriations and accrual of surpluses or deficits between periods. It is also his view that Ministers have a legitimate interest in major items of cost, in the absence of a market in which to set real prices. *Ownership*, however, has been a difficult concept to articulate and measure.

Purchase vs ownership

Purchase agreements (an administrative innovation rather than statutory requirement), enable Ministers to contract with their departments for the supply of outputs. The model is that of the marketplace: buyer and seller haggling over price against a backdrop of competitive supply, discriminating demand, efficient price, symmetrical information and minimal transaction costs. Experience has shown, however, that none of the model's conditions can be reliably satisfied, even in a weak form, in the NZPS. The market for NZPS outputs is characterised by monopoly supply, compliant demand, arbitrary price, asymmetry of information and time horizon, and significant transaction costs, many of which arise well after the transaction.

The concept of an efficient market fundamentally misrepresents the nature of NZPS production and exchange. Few Ministers have chosen to be energetic purchasers, preferring to concentrate their attention on adjustments at the margin. Few have taken advantage of the provision for Ministers to employ purchase advisors. There is little evidence of the scope for re-prioritisation within Votes being utilised, or of Ministers seeking alternative suppliers.

As Schick noted, the purchase interest has tended to overshadow the ownership perspective: the two pull in opposite directions. Purchase promotes a narrow, contractual, vertically-integrated and short-term view on performance; ownership connotes a broad, permissive, horizontally-integrated and longer-term view.

“In other countries, certain actions and outcomes fall between the cracks of the accountability system because managers are unsure of what they are responsible for; in New Zealand, they sometimes fall between the cracks because managers know precisely what they are responsible for.”

Allied with the dominance of the purchase perspective is disproportionate attention to *ex ante* specification, in contrast with haphazard attention to *ex post* assessment.

⁵ Other dimensions of the ownership interest are: strategic alignment, integrity of the Public Service and organisational capability.

Little account seems to be taken of previous commitments or achievements, and relatively little effort is directed towards relating current decisions to trend information.

Considerable redundancy is built into the various instruments to account for the allocation and consumption of public resources. The main instruments are the *Estimates*, *Departmental Forecast Reports*, *purchase agreements* and the Finance and Expenditure Committee's standard questionnaire. Despite a proliferation of documentation, no single document provides a complete view. Further, the partial view provided tends to be an accounting construct rather than an economic reality, and it is difficult to see what a government spends its money on and whether it gets value from that expenditure.

A better balance between purchase and ownership, and between accounting convention and economic reality, might be struck by developing a single, integrated, electronic data set, with agreed data standards. An executive information system could have the capacity to sustain a wide selection of reports, be easily accessible, and configured for multiple levels of analysis according to the (authorised) interests of the inquirer.

Chief executive performance agreements

Chief executives are the cornerstone of the decentralised management system. Their employment and performance management are a distinctive feature of recent New Zealand government reforms, representing a significant lever on the performance of the government management system. A key means of keeping the role and responsibilities of chief executives under regular review has been the chief executive performance agreement (CEPA), which became mandatory from 1991/92.

Since its introduction the CEPA has been refined annually to promote a constructive blend of managerial discretion and innovation with collective endeavour. It now combines elements of strategic, collective and personal contribution, and confirms performance and organisational development commitments. The recent clarification of the standards expected of NZPS chief executives complements the performance agreement, placing it in a broad and durable setting and highlighting the leadership role.

Schick criticised the rigidity and cost introduced to the chief executive system by the elaborate processes for annual renegotiation and review around the CEPA. Annual agreements are prone to undue attention to short-term priorities and problems at the expense of potentially more significant but less immediate concerns. Moreover, they encourage excessive specification of activities and results, for reasons of easier later assessment of performance linked to performance pay. This is at odds with the fact that the role of chief executive is beset by unpredictability and the leadership task is one of exercising judgement as circumstances unfold and choosing among priorities and options. Excessive specification tends to drive out risk-taking, and with it innovation and discovery.

Official Information Act 1982

The *Official Information Act 1982* is the third pillar of the modern NZPS. Fifteen years after it became law, it remains a potent instrument for open government. There is, however, evidence of both abuse and avoidance of the provisions of the Act. The Office of the Ombudsmen dealt with 5,000 complaints about refusal to release official information in 1995, up from 3000 in 1993. A review of the Act with a view to increasing the availability and transparency of official documents was foreshadowed in the Coalition Agreement. In October 1997 a Law Commission review of the Act reported four problem areas and recommended amendments to deal with them.

Summary

The constitutive elements supporting decentralised management are the statutory Acts and administrative instruments. The Acts are judged to be serving their purposes fairly well, although there is tension between purchase and ownership. It is in the area of the supporting instruments where the concepts of purchase and ownership within the NZPS have their most difficulty. With purchase in particular, there is little evidence that efficient market preconditions can be met. Meanwhile, the number of instruments proliferates, with none offering a whole view.

Assessment: operative factors

The management task is to acquire and deploy resources to achieve results. Implicit in this are decisions about what needs to be done (involving leadership, strategy and business planning), what resources are needed (money, people, information and business methods), what risks need to be managed (financial, operational and behavioural controls), and what results are achieved. In a government context the management task is complicated further because NZPS managers must observe particular ethical and accountability requirements. The following sections examine each of the factors with particular relevance to the NZPS.

Leadership

Although widely acknowledged as a critical factor in organisational success, there is no accepted means of testing the quality of leadership other than by attribution from results. Results, however, are an incomplete basis for assessment even when they can be reliably measured because leadership is as much about building capability as it is about motivating current performance.

Given the constrained market for future NZPS chief executives, the development of managerial talent is a critical dimension of leadership. A recent study by the SSC⁶ found that very little senior management development is taking place in the NZPS. The results of this neglect are showing up in the:

⁶ *Strategic Human Resource Capability Issues in the Public Service, SSC, 1997.*

- mixed quality of candidates for chief executive positions
- relatively few appointments to chief executive positions which come from within the department with a vacancy (three of 27 appointments since 1994)
- disproportionate representation of former Treasury and Foreign Affairs managers among new chief executive appointments (of the 39 chief executives on 1 November 1997, 14 had spent most or all of their career in one of these departments).

The main reasons offered by chief executives for the lack of senior management development is that they cannot afford either the direct or opportunity costs of training senior managers. Smaller departments have a valid point about meeting costs and covering absences, as well as the difficulty of accessing development opportunities in other (larger) departments. The lack of senior management development highlights the risks created by impediments to a collective approach to the NZPS labour markets. The issue of senior management development is a prominent item on the SSC's 1998 work programme.

Strategy and business planning

There is evidence of a growing use of strategic and business planning in departments⁷. The quality of the strategic conversation within government is likely to be improved as departments think more strategically about their organisational requirements and operational priorities and methods. Strategic plans are emerging as a means of integrating a government's ownership, purchase and policy interests in departments. It is conceivable that such plans could eventually replace current forms of documenting commitments by way of performance and purchase agreements, and departmental forecast reports. That would be consistent with the adoption of more strategic approaches to budgeting and chief executive remuneration.

Money

Departments are responsible for goods and services which, on the whole, cannot be efficiently produced, priced and traded in competitive markets, or where there are public policy reasons for government involvement or monopoly. As a result, the basis for transaction is cost, not price, and departments has limited means of diversifying their sources of revenue. Because departments have incentives to maximise the revenue they get from government, and government have incentives to ration revenue to departments, the question of effective cost is fundamental to any assessment of resource sufficiency. Government currently undertakes no systematic appraisal of effective cost. There is a risk that after a sustained period of downward

⁷ *Collation of Public Service Departmental Performance Assessments for the Year Ending 30 June 1997, SSC, 1998 (draft).*

pressure on costs, (including several years of baseline reductions), some departments might not be able to cover the real costs of effective current and future performance.

A number of departments display evidence of a high level of stress in terms of work-place relations and effective performance. They demonstrate low morale, employee dissatisfaction, and tensions between managers and staff, and between local and national units. Some of this is an inevitable consequence of sustained pressure for performance improvement and cost control, but it may also be symptomatic of other things, such as cumulative under-investment in skills and technology and unrealistic output volumes and prices. In establishing the output price, one can have little confidence as to whether it is too high or too low. Performance failure is one diagnostic in use to indicate that a price is too low. Three departments have undergone, or are undergoing, a reconsideration of output prices. In the one exercise completed so far, the result was an overall increase in funding (about 5 percent), tagged to two vulnerable areas, with some output reduction.

People

While revenue and expenses are clearly treated as Crown resources subject to extensive controls, people (public servants) are regarded as a departmental resource, subject to relatively few controls. Chief executives have considerable discretion over employment arrangements, and human resource management (recruitment, induction, performance management, remuneration, training and development, and career management) varies widely among departments. There is no routine collection of information on departmental practices in this area. The SSC collects a range of labour market statistics⁸ and reports to Ministers on overall staffing, salary movements, restructuring costs, turnover, recruitment and reported skill shortages. It also reports the employment profiles of the various EEO target populations. Analysis reveals:

- a long-term decline in the size of the NZPS, both in absolute terms and as a proportion of the labour force (from 5.7 percent of the labour force in 1987 to 1.9 percent in 1997)
- a continuing pattern of restructuring within the Service, directly affecting 25 percent of public servants at any one time; and between 1-4 percent of employees receiving restructuring payments (severance) in any one year
- a doubling of the percentage of public servants on individual employment contracts over the past three years; one in three now has an individual employment contract

⁸ *Six-Monthly Staffing Survey as at 30 June 1997*, SSC, 1997. (From June 1998 SMOSS is an annual survey.)

- an average turnover rate similar to that in the private sector, with one person in seven leaving any department in any one year; in a small number of departments the turnover rate is one person in four
- women are twice as likely to be recruited than men, and twice as likely to exit departments. Their proportion of the NZPS workforce remains constant at 54 percent
- little significant change in NZPS workforce composition by EEO profile over the past five years
- that although the proportion of Maori in the NZPS is slightly higher than their proportion in the total labour force, Maori public servants are concentrated in a few departments; two-thirds of departments employ a lower proportion of Maori than in the total labour force
- a 6 percent decline in real pay in the NZPS from December 1992 to December 1997, measured by movement in salary and wage rates against the Consumer Price Index; nominal increases for the NZPS over that period were several percent lower than those recorded for the private, local government and wider public sectors (figures do not include one-off performance payments, but these are generally lower in the public sector than in the private sector).

A SSC study on strategic human resource (HR) capability in the NZPS ⁹ identified several areas of concern, including:

- poor understanding of the link between human resource management and organisational strategy, leading to inadequate quality, supply and use of human resource information (fitting available skills to planned work, ensuring the capacity to implement policy and deliver services)
- concern about the present standard and future supply of management skills in departments, particularly at senior levels
- inadequate attention to responsiveness to Maori, and to Maori participation in the NZPS
- a perception that the image of the NZPS is a negative factor in recruitment and retention, which impedes movement between the public and private sectors, while creating incentives for departments to distinguish themselves from the NZPS.

⁹ *Strategic Human Resource Capability Issues in the Public Service*, SSC, 1997.

Although departments report a relatively high use of human resource, EEO and industrial relations strategies, the SSC's study casts doubt on how well these are integrated into business strategies.

The State Services Commissioner has delegated authority for negotiating collective employment contracts to chief executives and they have responsibility for industrial relations within their departments. Chief executives must still consult with the Commissioner about collective employment negotiations and remain within parameters set by government.

Governments have adopted a consistent approach to collective bargaining in recent years, requiring that the cost of settlements be met from within each department's funding baseline. Chief executives who consider that they have reached the limits of productivity gain and efficient operation within their existing baseline can opt for an output pricing review. The chief executive must demonstrate productive efficiency, while Ministers reconsider the volume/cost settings and mix of outputs in their purchase decisions. The Treasury has pointed to a low level of attention in most departments to improving cost allocation (through competitive tendering, outsourcing, and benchmarking costs and performance standards) as evidence that few departments are as yet under sufficient pressure to produce efficiently.

A firm line by governments on collective bargaining has resulted in a decline in real wage rates across the NZPS and a considerable reduction in redundancy provisions. There have been variable, and occasionally significant, costs to the NZPS as a result of work stoppages (generally strikes and lockouts). In 1993 only 114 person days of work were lost¹⁰ at an estimated cost of \$13,000; in 1996 the figure was more than a hundred times greater, at 14,676 (estimated cost of \$1.7 million). Figures on stoppages correlate with the growth in the number of disputes recorded by the Employment Tribunal: 2,447 in 1993/94; 3,220 in 1995/96.¹¹

While there is information to suggest that departments have improved on change management, they continue to struggle with performance management.¹² The SSC regional assistant commissioners have encountered widespread scepticism about performance appraisal schemes, based on perceived inequities in operation, complex and time consuming requirements, and outcomes which bear little relationship to individual performance or merit.

The overall human resource scorecard in the NZPS is mixed. There are pockets of excellence and some encouraging overall trends, offset by evidence of stress, a levelling out of results from EEO initiatives, and the serious risk of under-investment in future capacity.

¹⁰ *New Zealand Official Yearbook 1998*, Statistics New Zealand, 1998. Note that some government agencies outside the Public Service are included, but the largest of these (health and education sectors) are not.

¹¹ Industrial Relations Service, Department of Labour, 1996.

¹² Internal memorandum, SSC, 1997.

Information

Departments demonstrate a high use of information management practices and have high levels of investment in information technology (IT). Departments recognise that information is increasingly important for government transactions and the principal means of adding value to government decisions.

In 1997 government requested a stocktake of information technology projects for a database on the size, scope, costs and risks of IT investments in the NZPS.¹³ The stocktake revealed that departments have spent \$369m over the past three years on IT systems and associated hardware and software: equal to about \$10,000 for every public servant. They spent a further \$277m on IT services provided by external parties. The most common reasons for IT spending are to support operations, management systems, customer services and financial management. Services typically outsourced include technical and training support, user support and systems analysis and design.

In the five years to June 1997, 86 percent of IT projects were completed on or under budget, which indicates a generally competent approach to project management. The stocktake was silent on functionality achievement, however. The stocktake also identified the following areas of concern:

- uneven match of investment to departmental operating requirements or government objectives
- uneven coordination between departments at the planning stage of major projects
- uneven standards of risk management with nearly one-third of current or recently completed IT projects started without a risk assessment; many projects include customised components (departments spent \$49m on customised application software in the past three years, compared with \$33m on standard products), even though customising increases costs and can impair reliability and complicate maintenance
- the extent of reliance on outsourcing poses operational risks (e.g., the teething problems with the education payroll) and over time can erode the capability of a department to conduct its core business.

Ministers have asked for better coordination of investment between departments with common needs or related responsibilities, better management of the risks associated with IT investments and better control of the overall cost of information systems to government. Government has approved a monitoring regime for major projects, based on sound project management, credible assurance to central agencies, summarised reporting to Ministers, good practice guidance on IT project

¹³ *NZPS Information Technology Stocktake*, SSC, 1997.

management, and better use of available expertise for both project approval and project management.

Although IT investment and project management attract a considerable amount of attention in government, information quality and behaviour are arguably more important. In a decentralised management system, decision-makers at every level rely on good information as the basis for decision-making. In many areas, government is the sole or dominant source of information (e.g., immigration, labour market, school performance, public health, bio-security, national archives, law and order, land titles). The management of government-held information is critical, but the NZPS has no means currently of systematically assessing information quality and management.

Business methods and techniques

There is evidence of a high level of adoption of contemporary business practices in the NZPS. The underlying imperatives are to do more, to a higher standard, and at reduced cost. This creates powerful incentives for innovation and creativity, benchmarking, and substituting high cost transactions with lower cost ones. The results can be seen in many developments including: electronic data interchange between departments and clients, digital publication and maintenance of regulations, call-centres, voice mail and electronic messaging systems, quality management techniques, departmental websites, out-sourcing of support or stand-alone functions, use of consultants and other on-call people resources, increased use of research and communication techniques. Department structures have also changed, generally to better align service delivery operations with customers and to put more resources at the point where services are provided. Internal reorganisations have favoured flat structures, and greater use of teams and jobs requiring a wider set of skills. The introduction of business methods is among the most substantial benefits of the managerial reforms in the NZPS.

The extent of innovation and adaptation in departments can also create operational (and political) risk. For example, a number of departments have adopted case management techniques, assigning case managers to families in need of particular support. Without coordination, however, there is a risk of offering conflicting advice, which overwhelms and bewilders the family and undermines the desired results.

A SSC Regional Commissioners' report¹⁴ related considerable concern about the withdrawal of government services from some provincial centres of New Zealand. While each innovation might make sense in its own terms, no one is responsible for weighing the cumulative effect on a local community. Governments risk undermining public confidence in Public Service operations as a result, despite genuine improvements in efficiency and service delivery.

¹⁴ Internal memorandum, SSC, 1997.

Risk management

Whenever managers put resources to use to achieve results there are risks involved. Risk management is a useful shorthand for all forms of control within an organisation, geared to both its own operation and its operating environment. Attitudes towards risk have become noticeably sharper since the *Cave Creek* tragedy. In the wake of that tragedy the SSC worked with departments to clarify the dimensions of risk present in the NZPS, the techniques available for managing those risks, and the standards which should apply to risk management. As a result, the SSC added risk management to its schedule of performance expectations for departments for 1997/98, and based its expectations on the Australia/New Zealand risk management standard.

The SSC currently monitors the existence and operation of 17 management control systems within departments, including risk management, self-review and internal audit. Generally speaking, departments have been slower to develop these more forward looking control systems compared with financial control and performance reporting systems. Despite the fact that both the SSC and the Office of the Auditor-General have provided guidance on self-review practices,¹⁵ fewer than half of all departments claimed to have a self-review policy in place as at 30 June 1997. External assurance by central agencies ultimately relies on a good standard of self-review by chief executives. In the absence of a departmental commitment to self-review, there is a risk that other control systems will become less reliable and that government's various interests in a department will be compromised.

The standard of financial management is good in most departments, with high levels of compliance in operating reliable financial control and asset management systems. In most departments financial management is relatively simple: no debt, investments, foreign exchange or tax exposures to manage; low exposure to bad debts; externally financed asset replacement and a guaranteed revenue stream. Given the high level of fixed costs in most departments, and the discipline of integrated Crown accounts, there is a relatively low risk of delinquent financial management – and good systems in place to detect delinquency when it does occur.

Since 1995 Treasury has commissioned several reviews on financial management in the Public Service. A report by Price Waterhouse Urwick on financial reporting found that departments were better at providing reports for accounting requirements (especially Treasury's consolidation needs) than reports which integrate financial and non-financial information to give a rounded picture of performance. That report reinforced earlier work by Coopers & Lybrand on departmental costing systems which criticised cost allocation systems in departments. Systems were judged to be better geared to providing high-level cost information to support accounting compliance than to supporting managerial decision-making. Both reports concluded that financial management systems in departments tend to be of limited use to managers with budget-holding responsibilities. Poor cost allocation undermines the

¹⁵ *Report on Self Review in the New Zealand Public Sector, SSC, 1992.*

integrity of output pricing, skewing both purchase decisions and pricing of services for third parties.

A prominent source of risk is external contracting. In May 1997, Deloitte Touche Tohmatsu reviewed contracting in central government for The Treasury.¹⁶ The review found that departments undertook a significant amount of contracting, spending about \$700 million from July 1995 to December 1996. The review distinguished between contracting policy and practice, and found that practice was better than policy. The review identified some risks arising from deficient policy, including poor linkage of contracting decisions to business strategy, inability to capture lessons from contracting experience, unnecessary costs incurred through reinvention of contracting processes, lack of discipline around documentation, and risks to integrity where policy on matters such as conflicts of interest, contractor conduct and disputes resolution is deficient. Few departments have developed risk sharing arrangements with contractors (such as success fees), perhaps leaving departments to bear excessive risk. From the SSC's perspective, there is also concern over the extent to which external contractors understand and observe NZPS ethical values and standards.

In March 1997, the Auditor-General reported on a follow-up review to his 1994 and 1995 inquiries into the use of consultants by departments, focusing on the 20 departments which lacked formalised procedures for managing consultants in the 1995 survey. Of those, 15 had lifted their game to a level which met the Auditor-General's earlier advice on good practice. Three of the remaining five departments had engaged consultants without the benefit of written guidelines and without adhering to good practice.

Achieving results

Achieving results that contribute to a tangible improvement in the lives of New Zealanders is an exacting test of the reformed public sector. Achieving results requires more than delivery of outputs to specification, although that is the core component. It extends to an assessment of the impact of the outputs on the relevant target group or groups and the development and maintenance of an effective working relationship with that group. Achieving real results depends on awareness in departments of purpose, policy goals and output commitments, the priority given to customers and quality service, and more broadly, employee understanding about how the reformed NZPS is supposed to work.

The main ways in which the NZPS focuses on results are through the KRAs in each chief executive's performance agreement and the specification, monitoring and reporting of performance, based on each department's statements of service performance (both forecast and actual). Chief executives have to report at least six-monthly to their Minister, focusing on variances and significant developments. Those reports are copied to the SSC to inform performance monitoring.

¹⁶ *Review of Contracting in Central Government*, The Treasury, 1997.

The SSC is still developing methods and technology to track progress against KRA commitments, and contribution of KRAs to a government's desired strategic results. In 1996/97 the SSC rated departmental performance against KRAs as only average. Department reports tend to emphasise process developments rather than the quality of results, and linkages to SRAs are often unclear. Reported achievements were strongest for SRA.1 (*economic growth*) and SRA.2 (*enterprise and innovation*) and weakest for SRA.9 (*environment*). Policy advice appropriations broken down by SRA (1997/98) reveal that SRAs 1 and 2 command 29 percent of policy expenditure, with SRA.2 at the top on 19 percent. SRA.7 (*health*) gets 16 percent of expenditure and SRA.9 has attracted the third largest allocation at 15 percent.

Departmental performance reports are audited annually. In the 1996/97 audit of departments the Auditor-General reported that the management and control environment for financial and service performance within departments was on a par with the previous two years. About 70 percent of departments were rated *good* or *excellent* for their financial management; 66 percent achieved this rating for procedures for quality assurance and self-review of service performance. Only 52 percent were rated *good* or *excellent* for systems which provide service performance information. Clearly, there is considerable room for improvement.

Other aspects of achieving results such as customer focus and quality service, understanding public sector reform, and evaluating the impact of outputs, are more problematic. Meeting customer expectations and delivering quality service are less compelling imperatives in the NZPS than in the private sector. Departments do not compete for customers, and customers are seldom a source of revenue. In the NZPS, quality performance does not necessarily translate into more customers or increased revenue. For many departments the concept of customer is difficult to apply, particularly to regulatory and/or enforcement functions. A number of departments have taken action to improve their customer relationships and service quality, and to improve coordination of services with other departments in ways that benefit shared customers. There is no mechanism, however, for the NZPS to recognise and acknowledge those efforts.

There is little evidence that departments routinely evaluate the contribution their outputs make to the relevant policy objectives. Part of the reason for this might lie in a deficient approach to contracting for policy advice, and that insufficient provision is made for output evaluation as part of the policy advice function. Other possible factors include the difficulty of outcome-linked evaluation, and the effect of the strong distinction made early in the reforms between managerial responsibility for outputs and Ministerial responsibility for outcomes. Whatever the reasons, the gap in government knowledge about what does and does not work limits the critical connection between strategy and purchase. The SSC now has a project under way which examines the question of output evaluation.

There has been no attempt to measure the level of understanding among public servants about how the reformed public sector is supposed to work. Anecdotal evidence suggests that levels of understanding and commitment vary widely within departments and across the country. That evidence supports Schick's observation

that so far, for the most part, public sector reform has been a matter of ‘Wellington talking to Wellington’. Until reform changes the way in which individual public servants view their role and do their job, and provides them with the right information and incentives to do the best job possible, the reforms continue to be unfinished.

Integrity

The integrity of the NZPS depends on the collective commitment of departments to behave and perform to a high standard, recognising that the reputation and credibility of government as a whole depends on public and Ministerial confidence in every part. At issue is the attention paid to the core values of justice and fairness, responsibility, openness, honesty, probity and non-partisanship, and the willingness and capability of the NZPS to respond to the changing requirements and priorities of government and the public.

New Zealand has rated highly as a ‘non-corrupt’ country in international surveys of trustworthiness,¹⁷ and there is a strong positive correlation between honesty and integrity in government and economic performance. Within New Zealand trust and confidence in the NZPS has been adversely affected by the *Cave Creek* tragedy, the *Winebox* inquiry, and the fraud convictions of the former Controller and Auditor-General (the *Chapman* affair). While matters of public policy inevitably attract controversy, the effectiveness of the NZPS is impaired if the public does not believe it operates competently, responsibly, fairly, and with probity.

There have been a number of initiatives by the SSC to safeguard and strengthen the integrity of the NZPS. Foremost among them was the publication (1990) of the *Public Service Code of Conduct* and (1995) of the *Principles, Conventions and Practice Guidance Series*. The latter publication, intended as a guide for senior managers, gives public servants a reference to the enduring values and requirements of public service.

Also in 1995 and over the following year, the SSC issued material to guide public servants on working under proportional representation. The material emphasised that there was likely to be more continuity than change for public servants and reiterated the importance of political neutrality as a core operating principle of the NZPS.

Sales and distribution data for the SSC's various documents on NZPS conduct indicate a high level of interest. Two different forms of the *Principles, Conventions and Practice* guidance were produced; 429 have been sold. Four publications were produced under the *Working Under Proportional Representation* banner: a pamphlet was distributed to every public servant; and, of the other three publications, 1,600 have been sold and 9,100 have been distributed without charge. The *Public Service Code of Conduct* is in constant demand; since April 1994 the

¹⁷ *Transparency International Corruption Perception Index 1997*, Transparency International & Dr. Johann Graf Lambsdorff, Berlin, 1997. [www.transparency.de/press/1997.31.7.cpi.]

SSC has distributed 8,725 copies, usually to departments undergoing or emerging from major change.

To reinforce the message of the importance of integrity, the SSC published the standards of behaviour expected of NZPS chief executives,¹⁸ and clarified the meanings of *accountability* and *responsibility* (as part of the response to *Cave Creek*). The SSC also included a section on integrity in its expectations of departmental performance for 1997/98.

Summary

Decentralised management should be the highlight of the reformed NZPS. The reforms were intended to promote better results in exchange for greater freedom, but the results are patchy. Increasingly there are heavy demands for compliance information that offers little assurance that the intended goals are being achieved.

Accountability and control

The problems of accountability and control arise because of the distance between those who determine direction and priorities, those who decide how work is done and what resources are applied to that work, and those who do the work. With distance comes the risk that the goals and priorities of people in different parts of the organisation will diverge. One of the main drivers of public sector reform in New Zealand was the desire to strengthen *managerial* or *hierarchical accountability* in exchange for greater discretion over resource use and organisational arrangements.

The requirement for *public accountability* adds complexity to the issue of control in central government. Control is necessary not only to ensure that government organisations succeed in achieving their purpose, but also to ensure that public responsibilities are properly exercised and that the responsible parties can account for their performance.

Ministers and chief executives are central to the accountability of the NZPS. Ministers are individually and collectively responsible for departmental appropriations and performance, and for all government decisions and actions. Chief executives are responsible for managing their departments, advising their Ministers and for upholding the collective interests of government. Some chief executives also have specific statutory responsibilities.¹⁹ Accountability is effected by many means. The principal forum for Ministerial accountability is Parliament, through proceedings in the House, select committees and activities of the Officers of Parliament. Ministers are also accountable through the courts (administrative law, judicial review or judicial inquiry) and the media (policy or departmental

¹⁸ *Responsibility & Accountability: Standards Expected of Public Service Chief Executives*, SSC, 1997.

¹⁹ *Ibid.*

performance). NZPS chief executives are accountable in these same forums. Their performance is also subject to formal review by the State Services Commissioner.

The adoption of output-based appropriation and the emergence of contracting mechanisms prompted the introduction of an interactive control system the strategic management process – together with diagnostic controls (which require the clarification of targets and monitoring of their achievement).

Assessment

The accent on accountability²⁰ in the NZPS is ubiquitous: in purchase and performance agreements, departmental forecast reports and annual reports, periodic financial and performance reports, and a miscellany of requirements, expectations and standards imposed by central agencies or written into law. For the most part managers take accountability very seriously. There is a high level of compliance with documentation requirements and an extensive apparatus in each department dedicated to generating the necessary information. As to whether the information provided is put to good use, the relative lack of attention makes it difficult to assess.

A review of accountability requirements conducted jointly by departments and central agencies in 1994 developed a set of protocols to guide the ongoing operation and refinement of the accountability system. While the protocols have been a useful discipline on the central agencies, they have not halted the proliferation of information requirements, nor have they prompted any study of the overall costs of the accountability system or the value provided. Further, there is no reliable information on the costs and benefits of meeting accountability requirements. Much of the information which departments produce is little different from the information they need to run disciplined and effective organisations. There are, however, additional costs to package the information for various audiences and purposes. A significant concern arises over the undifferentiated nature of the accountability requirements, which bear heavily on smaller departments. As Schick noted, the costs of accountability are not solely financial. The more exacting cost might be the resurgence of compliance behaviour: an inclination towards management by checklist. Such behaviour robs the reforms of their vitality and may reintroduce the rigidity that made them necessary in the first place.

The growing importance of strategy in government suggests the need for a more comprehensive but balanced control system, spanning all elements of the NZPS value chain, from outputs to outcomes. The present control system within the NZPS is neither tailored to risk nor balanced. The challenge is to find the right mix of controls and apply them according to performance risk and track record. A multi-layered approach to control in a devolved management system allows the mix

²⁰ The use of the term *accountability* in this context with respect to chief executives refers to their obligation to 'explain fully and accurately all or any aspects of their own and their department's performance'. For the most part *accountability* has come to mean an obligation to answer, or to report to a higher authority, and may take the form of a periodic summary or documentation of information. This will often be presented as a self-review or self-assessment.

of controls to be tailored to differing circumstances and risks, and to different organisations.

The three central agencies are pivotal to the operation of the control system,²¹ administering the three main forms of leverage over the performance of the NZPS: the Cabinet decision-making process; the Budget process; and the chief executive selection and performance specification process. It is impossible to make a convincing case for a more balanced, integrated and tailored control system without considering whether the central agencies as presently constituted have the capacity or disposition to operate such a system.

The way forward might lie in a combination of initiatives to strengthen cooperation between the central agencies, together with an explicit undertaking to shift leverage on performance away from cost (the purchase transaction) and towards effect (ownership and performance), by demanding credible evidence of contribution towards a government's objectives. Such a shift in emphasis would prompt greater use of multi-year performance agreements, evaluation, and business plans. The current accountability system with its heavy emphasis on the measurable could evolve into a more mature approach that allowed for complex judgements supported by empirical information.

Summary

The accountability system is one of the very distinctive features of New Zealand reform, with its emphasis on written agreements and ex-ante specification. There is growing evidence, however, that the compliance costs, both financial and behavioural, engendered by the system, are mounting. A more coordinated approach by the three central agencies to support a NZPS concerned with outcomes as well as outputs is essential.

Reflective adaptation

Learning what does and does not work, and using those lessons in decision-making, is the final feature of the system used to assess the state of the NZPS in this paper. Under the model of governance being developed in New Zealand and elsewhere, government's role is about listening to the citizens, framing a vision, setting broad directions, and then creating the conditions in which society as a whole can steer in the desired direction. The process of government is typically more active than reflective, driven by short cycles of annual budgets and work programmes and triennial elections.

To gauge what reflective and adaptive capabilities might look like, we need to consider two broad questions:

²¹ A. Matheson, *Governing Strategically: The New Zealand Experience*, draft submitted for publication in *Public Administration and Development*, UK, 1998.

- how governments learn and bring about change?
- how well is the New Zealand government doing in achieving both these aims?

A key issue for modern, democratic government is the need to create space for reflection and knowledge creation within a system cluttered with the urgent, and caught in the inertia of past decisions. In part this is a function of attitudes and dispositions on the part of Ministers and their advisors, particularly within the central agencies, and in part it is a function of the quality of the information at their disposal. The core requirements for institutional learning are:

- openness to experimentation and innovation (within bounds)
- commitment to honest self-scrutiny
- willingness to engage with other institutions and deal with criticism or tension
- systematic means for testing and communicating new ideas.

To further cultivate the habit of learning, government can measure and evaluate outcomes, extract lessons from both successes and failures, and listen to citizens, clients and customers. Enabling a knowledge capacity to be cultivated in New Zealand government poses a particular challenge because that capacity is in the realm of outcomes, and responsibility for specific outcomes and intervention choices falls to Ministers. Good strategy and intelligent government are impossible without the regular empirical assessment that leads to change in strategy or management controls, but outcome evaluation has largely not occurred.

Reflective processes such as annual reports, select committee reviews and chief executive performance assessments are not connected to the strategic decision processes in a way that creates consequences, expands knowledge and prompts orderly change.

Evaluation about the effects of policy is critical for learning, but it is not a prevalent feature of the current New Zealand government. Encouraging agencies to use information more effectively to research and evaluate policy impacts will strengthen strategic capacity, lift government performance and encourage sound judgement. Schick argued that we should cease talking of outcomes as things which politicians can be responsible for. He suggested that outcomes:

. . . should be employed more for formulating policy than for maintaining accountability. They are powerful directional signals: are things getting better or worse?

A capacity for change has to be cultivated and maintained: government in New Zealand has defied bureaucratic impulses for more than a decade, as successive governments have sponsored quite profound change. As Schick noted:

In managing organisations and resources, there never is a point at which the process of reform is completed. Even when they work as expected, reforms have to be freshened and revitalised. If they are not, the new practices become hardened into routines – the things that have to be done to get through the year – and those who carry out the procedures lose sight of the purposes the reforms were intended to serve.

The further refinement of strategic management in government probably holds the key to strengthening its capacity for change. Most of the factors critical to building change capacity are:

- clear and public targets
- sustained 'strategic conversation' among Ministers and senior officials to translate targets into work programmes and measurable results
- public reporting on progress.

Summary

The conditions for organisational learning and change are more evident in the New Zealand government than in other jurisdictions. However factors favouring the momentum of past decisions far outweigh government's ability to make beneficial change, and there is room to improve both learning and change capacity within the current system.

Conclusions

The purpose of this report is to assess the overall health and capability of the NZPS based on available information. The report stems from the SSC's responsibility to consider how well the public sector organisational and management reforms of the last decade are working in practice, and to advise government on opportunities for improvement.

Although there has been considerable progress, the NZPS could perform better. Generally, the model which underpinned the public sector reforms of the past ten years is deemed sound, and ready for further evolution. Although they have been relatively successful from an efficiency perspective (and there have been many achievements), the reforms have been less successful in terms of effectiveness, in ensuring that government's policy objectives are realised.

The central premise of this assessment is that the NZPS, like all complex organisations, has four requirements for success. It needs to:

- set a strategic direction
- achieve results, through effective decentralised management
- hold managers accountable for those results
- review results, and feed these into the strategic management of government.

The conclusions in this paper, drawn from the evidence cited, are presented under the major headings used throughout the paper. Under each heading the material is collected into a set of themes to facilitate further discussion of areas where progress may be made.

Setting direction

Since being introduced, the SRA/KRA system has assisted in the clarification of the strategic objectives of government, enabled departments to align their activities with those objectives, and improved coordination and cooperation across departments. Nevertheless, there is considerable room for improvement, and the full benefits of the SRA/KRA system will not be realised until it has a more pronounced effect on Budget decisions. A SSC survey of pre-SRA and post-SRA appropriations in four departments (selected because of the importance of their contribution to a particular SRA) showed that there was no significant shift in the resources allocated to these departments, despite their new strategic responsibilities. There needs to be better coordination of the SRA/KRA and Budget timetables, with the strategic phase being properly integrated into the Budget cycle (rather than being ‘squeezed’ into it). There also needs to be a greater recognition of the Budget as an instrument of strategic management.

The government management system needs to strengthen its capacity to adapt and respond to changes in its environment. This can be achieved by a further refinement of strategic management, in particular:

- having clear targets (which are not necessarily highly specified)
- Ministers and senior officials working together strategically, to translate these targets into work programmes that emphasise measurable results;
- reporting publicly on progress.

Decentralised management

Senior management development

A recent study by the SSC found that very little senior management development is taking place in the NZPS. This is evidenced by:

- the mixed quality of candidates for chief executive positions

- the rarity of having a chief executive appointed from *within* a department (which has happened only three times since 1994)
- the disproportionate numbers of chief executives who have come from Treasury and Foreign Affairs.

Many chief executives argue that they cannot afford the opportunity costs, as well as the direct costs, of training senior management. This is a valid point for smaller departments in particular. Nevertheless, the lack of a collective approach to the development of managerial talent at senior levels shows a lack of succession planning which could imperil the future capability of the NZPS.

Human resource capability

A SSC study on human resource capability in the NZPS has identified several areas of concern. These are:

- a weak understanding of the link between HR management and organisational strategy which in some cases, has led to an inadequate fit between the skills available, and the work planned so jeopardising a department's capacity to implement policy
- the present standard of management skills, and their future supply
- the unevenness of Maori participation in the NZPS (most Maori public servants are employed in just a few departments)
- the poor image of the NZPS, which hinders recruitment, impedes movement between the public and private sectors, and creates incentives for some departments to regard themselves as 'outside' the organisation's mainstream.

Appraising departmental performance costs

There is no systematic reappraisal of real departmental costs. Given the sustained pressure on costs (including several years of baseline reductions) that departments have experienced over the last decade, the lack of such appraisal is cause for concern. Without it, there is no way of knowing whether departments can or cannot cover the real costs of effective performance. Three departments have undergone, or are undergoing, a process of reconsidering output prices. The one exercise completed so far showed unrealistic output volumes *and* prices. Several other departments display evidence of high levels of workplace stress that may be attributable to cumulative under-investment in skills and technology, and hence unrealistic outputs/prices.

Inadequate management information

In any management system, the quality of information available to decision-makers affects the quality of their decisions. There is, however, no systematic assessment of the quality, management and use of information in the NZPS. Nevertheless, particular weaknesses have been identified in financial information. Two Treasury-commissioned reviews have found that departmental financial management systems are better at meeting financial accounting requirements than at supporting decision-making. So, they are of limited use in providing information to managers who have budget responsibilities. This undermines the ability of managers to price outputs accurately, and potentially skews purchase decisions.

Poor coordination of investment in IT

In mid-1997, government authorised a stocktake of departmental information-technology projects. This revealed that 86 percent of the projects undertaken in the five years to June 1997 were completed on or under budget – which indicates a generally competent approach to IT project management. However, the stocktake did identify some weaknesses:

- uneven matching of IT investments to departmental operating requirements (or to the Government's objectives)
- uneven coordination between relevant departments at the planning stage
- uneven standards of risk management
- a high reliance on outsourcing (outsourcing poses operational risks, such as those like the education payroll problems and longer term, excessive reliance on outsourcing can erode the capability of a department to conduct its core business).

Since the stocktake, government has approved a monitoring regime for major IT projects which includes summarised reporting to Ministers, and good-practice guidance.

The risks of contracting

Departments undertake a considerable amount of contracting (about \$700m from July 1995 to December 1996). The Auditor-General's 1997 review of departmental use of consultants found that most departments met good-practice standards. Three of the five 'failure' departments were still engaging consultants without written guidelines and without following good practice. A recent Treasury-commissioned report, which looked at the contracting in this period, identified a number of risks in departmental policies on contracting. These were:

- poor linking of contracting decisions to business strategy

- inability to learn from previous experiences of contracting (unnecessary costs incurred when processes are reinvented)
- lack of discipline in documentation
- lack of attention to issues of conflict of interest, contractor conduct, and disputes resolution.

Improving public confidence

Faced with the need to do more, to a higher standard and for reduced cost, departments have been quick to adopt innovative business practices – such as electronic data interchange with clients, call-centres, websites, and outsourcing support functions. They have also been changing their structures to better align service delivery and customers. The extent of innovation, however, creates a high level of operational (and political) risk, and concern has been expressed by many provincial communities over their loss of locally-based government services. Governments risk undermining public confidence in their operations, despite genuine improvements in efficiency and service delivery. Public confidence has also been affected by events such as the *Cave Creek* tragedy, the *Winebox* inquiry, and the fraud convictions against a former Auditor-General. The effectiveness of the NZPS is impaired if the public does not believe it is operating responsibly.

Inadequate self-review

The SSC monitors the operation of 17 departmental management-control systems (which include risk management, self-review and internal audit). NZPS departments have been relatively slow to develop these systems; and less than half of them said they had a self-review policy in place as at 30 June 1997. This is despite the fact that both the SSC and the Auditor-General have provided guidance on self-review practices since 1990. Where self-review is absent in a department there is a risk that other control systems will become less reliable, and that overall performance will be compromised. Attitudes towards risk management, by contrast, have become noticeably sharper since the *Cave Creek* tragedy. The SSC has worked with departments to clarify the nature of their risk, as well as risk-management techniques and standards. Risk management was added to its schedule of performance expectations for departments in 1997/98.

Assessing the impact of outputs

Effective management is about achieving results. But, achieving results requires more than just delivering outputs to specification: it extends to assessing the impact of those outputs. There is little evidence that departments are systematically evaluating the contribution that their outputs make to policy objectives. The SSC has found that departmental reports tend to emphasise process developments rather than the quality of results, and that linkages to SRAs are often unclear. Similarly the Auditor-General has found that while 70 percent of departments rate 'good' or

“excellent” for financial management systems, only 52 percent get that rating for systems that generate service performance information.

Accountability

For the most part, NZPS managers take accountability very seriously. There is a high level of compliance with documentation requirements, and an extensive apparatus in each department dedicated to generating information for compliance purposes. There is, however, no reliable information on the costs of this accountability or on whether the information is put to good use. There are concerns that if the demands for compliance are too high, ‘management by checklist’ might result. Allied to this is concern about the crudeness of accountability requirements: all departments face the same requirements, regardless of their size and types of risk. The controls chosen for an organisation need to be tailored to the main risks in a cost-effective way, and the nature of the organisation. Otherwise, they can skew performance: what gets measured, gets managed. Finding the right mix of controls is essential for the future development of a NZPS committed to decentralised management and strategic coordination.

There also needs to be an explicit shift of emphasis in accountability – away from the cost of performance and towards the effects. This shift would prompt greater use of a multi-year approach – in performance agreements, and business plans. It would allow accountability to develop into a more mature system that encompasses qualitative as well as quantitative accountability.

Reflective adaptation

Government is driven by short cycles: yearly budgets and work programmes, and three-yearly elections. Its ‘review’ processes – annual reports, select committee financial reviews, and chief executive performance assessments – are not well connected to its forward-looking decision processes. Even within departments there is little evaluation of the effects of outputs and what these have contributed to a government’s policy objectives.

Developing a capacity for review, however, involves an evaluation of outcomes. These were consciously sidelined in the original reforms: responsibility for them was assigned to Ministers. Yet successful strategic management is impossible without a steady stream of empirical evidence on whether or not the intended strategic direction is being maintained. Evaluations of the effects – the outcomes – of policy is a critical. So is extracting the right lesson from an evaluation, and using it to inform strategic direction. In short, the government system needs to measure and evaluate outcomes, learn from past successes and failures, and listen to citizens, clients and customers.

Stronger public institutions

Stronger institutions are also a critical factor in building the capacity for change. Public sector reform over the last ten years has resulted in a large number of Crown

entities and small departments, each of which must meet management and accountability requirements. As mentioned above, there is concern that controls are draining managerial energies and could narrow managers' perspectives. The NZPS needs to strengthen its capacity for dealing with any such unintended effects. A better understanding of the operation of the public-sector labour market is also crucial – how it affects institutional capability, and what interventions might be needed to offset its adverse features.

New forms of central agency support

With the introduction of strategic management in the NZPS, the three central agencies began to operate in the manner of a 'corporate office' – offering an integrated perspective on strategy, finance and performance to its principal, the government. The full potential of this concept has not been realised, largely because of institutional barriers between the three central agencies and the absence of disciplined procedures to reinforce the corporate office concept. As the government system moves into a new stage of strategic management, with an emphasis on evaluating outcomes and using such evaluations to inform future policy, a new form of central agency support will be required, and cooperation among central agencies will need to be strengthened.

Improvements are possible and essential in each of the four main areas discussed in this paper: direction setting, decentralised management, accountability and reflective adaptation. Developing the precise details of the improvements suggested here is beyond the scope of this paper. The longer term intent, however, is to move towards definitive policy conclusions on the NZPMM. To continue to develop the effectiveness of the NZPS, further thought and debate are needed. To conclude, again from Schick:

The task ahead is much more difficult than what has been accomplished thus far, but the rewards for success will be even greater.