10. NEW ZEALAND

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Overview

The New Zealand reforms were directly stimulated by economic and fiscal conditions. A fiscal crisis in 1984 involving a stagnant economy, high national debt, 20% devaluation and an exchange rate crisis led to a search for ways to reduce public spending. An attempt by ministers in 1985 and 1986 to scrutinize spending highlighted the poor information base for decision-making and the perverse incentives for heads of departments. Criticisms of the prevailing arrangements included concern that the input based information system was largely useless for making effective decisions, and that incentives encouraged managers to protect and expand resources. For example heads of departments were paid partly on the number of staff they employed. Ministers certainly found the bureaucracy unresponsive and there were concerns about the quality of policy advice.

Input controls restricted managerial discretions required to improve performance and also provided a place to lay blame for poor performance. Agencies faced conflicting objectives, roles and responsibilities that made it difficult to hold them accountable for the achievement of any objectives, for example, commercial and non-commercial functions were often placed together.

Staff quality was variable, and restrictive employment conditions out of step with private sector conditions favored inside appointments and made the public service unattractive. At the same time, public sector employment arrangements encouraged costly wage settlements.

Not all the problems were seen as bureaucratic. Ministers saw the budget as a game where the winner extracted the greatest increase in resources (Scott and McKenzie 2001).

Overall, government was an inefficient and sometimes ineffective supplier of many goods and services that were considered better provided by the private sector such as telecommunications, railways, airline services, construction, farming and forestry. For the twenty years to 1986, the government invested $5,000 million of taxpayer’s money in the departmental trading activities of the Lands and Survey Department, Forest Service, Post Office, State Coal Mines and the Electricity Division of the Ministry of Energy. In 1986 these organizations managed asset values of over $20 billion but made no net after tax return to shareholders (Douglas and Callen 1987, p.234; Jennings and Cameron 1987).

Strikingly the **reforms were designed and implemented by elite inside group of politicians and central agencies in a top-down fashion**. There was no great pressure for change from citizens - and 1984 to 1990 reforms unpopular particularly with people displaced from the public sector and with the left wing of the Labour party. Extensive use was made of management consultants and other external experts for specialist advice on areas such as privatization and restructuring

The sequence of reforms

Sequencing was determined by fiscal aims and attention was paid to the areas of largest gain. As the **reforms provided managers with freedom to manage in return for accountabilities** under the Public Finance Act, the timing of the employment reforms and the finance reforms was necessarily closely related.

Box 1 Sequence of reforms in New Zealand

date	reform
1986 onwards	Corporatisation and privatisation of state owned enterprises
1986 onwards	Restructuring large conglomerate ministries
1988	State sector employment reforms
1989	Public finance and accountability reforms
late 1980s	Health sector decentralized to area health boards
late 1980s	Education sector decentralized school administration to local trusts
1990s	Education sector decentralized financial management
1993-1999	Health sector reforms with split of funding, purchasing and provision
1999 to date	Refinements considered for Crown entities
2000	Education sector decentralized financial management reversed by Labour/Alliance government
2001	Health sector returned to district health board model under Labour/Alliance government

These internal reforms were accompanied by other, external changes. The Official Information Act 1982 increased the availability of information held by public sector organizations. It has been widely used by the opposition, media, interest groups and the public to obtain information on performance and other matters. The increasing use of judicial review through the courts has placed decisions taken by government under a spotlight. Public organizations are more aware of need to follow good processes in making decisions. Increasing demands for participation in government decision-making by Maori people has led to greater consultation requirements.

Reformers' concerns

Fiscal problems were the stimulus for the reform program. The new arrangements saw appropriations strictly adhered to and better recording and management of government finances including contingent liabilities.

One aspect of the fiscal problems related to the **overall government wage bill**. High wage costs rapidly flowed through the public sector with ease due to complex comparabilities between different groups of public sector employees. Performance was not linked to pay and rigid job classifications and pay scales removed freedom for managers to set pay levels and use performance based pay.

There was a concern that the some public sector organizations provided the services that they wanted to and were **not responsive enough to ministers**, and that Chief Executive Officers (CEOs) and senior management appointments were too long term and rigid. It was difficult to appoint new people with fresh approaches, and the formal appointment process favored inside appointments and made public sector unattractive to private sector people.

Some particular targets were identified. The lack of clear objectives, focus, roles, and responsibilities in large conglomerate government organizations, and the confused mix of functions such as policy, funding, purchasing, provision within the same organization gave rise to conflicting objectives.

Institutional starting points

Overall

The reforming government that held office from 1984-1990 built its agenda for change in New Zealand on a very particular foundation. The political system allowed government considerable scope to implement reforms with no tradition, in the early 1980s, of coalition governments.[i] There was a tradition of government stability, with few governments serving less than their full term. The political system attracted competent politicians, and the **public service had competent and effective central agencies** particularly in the Treasury. The Treasury led the reforms in 1980s and was well positioned to do so. The State Services Commission led changes to the public sector labor arrangements.

There was also a **sufficient core of competent managers** within the public sector to implement the reforms and an adequate supply outside the public sector of required skills such as trained accountants. Staff in the public and private sectors was well informed and had a reasonably high level of compliance with the law compared to many other countries.

For several historical reasons, there was a low level of trade union influence in the public sector and they had little ability to resist change. There had been no compulsory membership of trade unions.

Most critically, there was **a strong tradition of discipline**. The public service had a solid track record of **complying with budget, management and reporting requirements** to a reasonable standard. This was accompanied by a tradition of career public servants with obligations to serve the government of the day, rather than a domination of political appointments in senior roles. There were also low or **minuscule levels of corruption** and it was not a culturally accepted practice.

The reforms were accepted by successive governments from different parties. Even the 1999 Labour/Alliance government which has distanced itself from the 1980s reforming Labour governments, has confirmed it will retain the legislative cornerstones of the reform although it has made changes to employment relations legislation which has the potential to strengthen the role of trade unions.

Constitution/political system

New Zealand is an independent state; a monarchy with a parliamentary government. Queen Elizabeth II (of the United Kingdom) has the title Queen of New Zealand.

In 1840 many Maori chiefs signed the Treaty of Waitangi thereby exchanging their territorial sovereignty for the guarantees of the treaty. New Zealand was recognized as a British colony from this date however there have been many arguments over exactly how it became a British colony.

New Zealand's Constitution Act of 1986 consolidates the main elements of New Zealand's statutory constitutional law under five parts corresponding to the Sovereign, the Executive, the Legislature, the Judiciary and the Governor-General. The New Zealand government describes the functions of the Crown and Governor-General as follows:

> "The Governor-General is the representative of the Sovereign in New Zealand and exercises the royal powers derived from statute and the general law (prerogative powers). The powers of the Governor-General are set out in the Letters Patent 1983, and it is for the courts to decide on the limits of these powers. The Governor-General's main constitutional function is to arrange for the leader of the party with the most support in Parliament to form a government.
>
> The Crown is part of Parliament and the Governor-General's assent is required before bills can become law. The Governor-General is required, however, by constitutional convention and the Letters Patent, to follow the advice of ministers. In extraordinary circumstances the Governor-General can reject advice if he or she believes that a government is intending to act unconstitutionally. This is known as reserve power." (Joseph 1993, p.26).

New Zealand has experienced recent constitutional reform, however. In 1992, a referendum was held on electoral reform. The referendum was in two parts: (i) voters could choose between electoral reform or maintaining the existing first-past-the post system; and (ii) voters could choose between four options preferred: supplementary member, single transferable votes, mixed member proportional or preferential voting. Eighty-four percent of those voted elected change. A clear preference was for mixed-member proportional representation (MMP) which received 70.5 percent of the votes for change.[ii]

New Zealand has a small single chamber legislature (120 MPs), and the majority, which since the introduction of MMP is formed by coalition parties, dominates the legislature. Since MMP was introduced in 1996 coalition governments have ruled. Previously, Prime Minster and Cabinet were able to force through changes with the support of their MPs. The shift from a strong majoritarian executive to a coalition has required more compromise and consensus within coalition parties.

Formally, the parliament meets in answer to a summons from the Governor-General. The Speaker, elected by the House, is the presiding officer, maintaining order in proceedings and ensuring the Standing Orders (rules of procedures for the House) are complied with (Statistics New Zealand 1999).[iii]

Structure of Government

The state sector includes the New Zealand Public Service, which is made up of 39 government departments, plus Crown entities and SOEs. The state sector also includes the New Zealand Police and the New Zealand Defense Force. The Public Service is characterized by relatively small departments that have clearly defined roles in policy advice, service delivery, regulatory or sectoral funding functions (Statistics New Zealand 1999).

Local Government in New Zealand comprises:[iv]

- 12 Regional Councils
- 74 Regional Authorities
- 154 Community Boards
- 6 Special Authorities
- 22 District Health Boards.

New Zealand’s local government is largely independent of its executive government. A Local Government Act sets out its functions and duties. Local government falls into three categories: (i) regional; (ii) territorial; and (iii) special purpose authorities. Income is usually independent of the central government however the 22 district health boards are funded by central government. Local taxes make up the majority of local government income.

Local authorities hold three-year terms. Local authorities are required to publicize and receive public submissions of important decisions.

Line Ministries and departments, in their reformed **slimmed down role**, are responsible for **decision making on policies, purchasing of services, design and management of service "contracts" and managing "contracts"** with Crown entities (executive agencies) and other providers. Many service contracts are between government entities.

They specify what is required however they are not usually regarded as formal contracts to be enforced through courts. As many involve the long term supply in bilateral monopoly relationships, the identification of mutual objectives and the management of potential conflicts are important aspects of making these arrangements work well.

Crown entities (executive agencies) usually have either service delivery functions or regulatory functions. Service delivery agencies make decisions on delivering the outputs specified in the service agreements. Some regulatory agencies have special functions requiring a degree of independence from government, e.g. Commerce Commission, Privacy Commissioner, Human Rights Commissioner, Race Relations Commissioner.

Ministers of the Crown are appointed by the Governor-General on the advice of the Prime Minister and must be members of Parliament. Collectively, they form the executive arm of government whose principal decision-making body is Cabinet, which is chaired by the Prime Minister. All major decisions are taken through the Cabinet process and Cabinet meetings are confidential.

All ministers are members of the Executive Council which is the highest formal instrument of government and is the institution through which the government as a whole advises the Governor-General, normally by recommendations to make Orders in Council. Apart from Acts of Parliament, Orders in Council are the main method of implementing government decisions requiring force.

The Cabinet is the central decision-making body of the executive, whose role is to take decisions in areas which include: (i) policy issues; (ii) spending proposals; (iii) proposals for new legislation or the making of regulations; (iv) areas which involve a number of government departments; (v) international treaties and agreements.

Cabinets have committees with a variety of roles. The Shipley administration undertook some fresh thinking about the cabinet committees and took steps in the direction of a two-tiered cabinet. When Jenny Shipley became Prime Minister in 1997, she initiated substantial changes in the operation of the cabinet and its subcommittees. Several strategy committees were set, as well as four ministerial teams covering related areas across all the portfolios (economic; enterprise and innovation; social responsibility; justice and security). A committee of powerful ministers known as the 'gate-keeping ministers' dealt with significant fiscal matters. Problems with fiscal control in New Zealand and internationally have provided valuable lessons for governments. Some of the worst situations in the formation of fiscal policy in the 1980s can be attributed in substantial measure to poor decision-making processes. The gate-keeping ministers were the Prime Minister, deputy Prime Minister, and the treasurer and finance ministers. They provided a spending limit for four ministerial teams that between them covered all the government portfolios. The gate-keeping ministers kept an eye on the shape of the budget as it emerged. Once they agreed on an issue, it was most unlikely to be overturned in the cabinet.

The new government elected in 1999 reversed these developments and established a larger number of committees. How well this structure works remains to be seen.

Economic development is separated from finance, expenditure and policy, which is a novel conception. Following controversy over the policy to target services based on racial identification, the "closing the gaps" committee was disbanded.

There are many more ministers than members of cabinet.

Box 2 Ministers in New Zealand[v]

Prime Minister Deputy Prime Minister Minister for Arts, Culture and Heritage Minister for Economic Development Minister for Industry and Regional Development Minister of Finance Minister for Accident Insurance Minister of Revenue Minister of Social Services and Employment Minister of Foreign Affairs and Trade Minister of Justice Minister of Health Minister of Conservation Minister of Local Government Minister of Agriculture Minister for Trade Negotiations Minister for Trade Negotiations Minister of Education	Minister of State Services Minister for Sport, Fitness and Leisure Minister of Energy Minister of Fisheries Minister of Forestry Minister of Research, Science and Technology Minister for Crown Research Institutes Minister of Labor Minister in Charge of Treaty of Waitangi Negotiations Minister of Corrections Minister for Courts Minister for Disarmament and Arms Control Minister for Land Information Minister of Immigration Minister for Senior Citizens Minister of Police Minister of Internal Affairs Minister of Civil Defense	Minister of Defense Minister for SOEs Minister of Tourism Minister of Veterans Affairs Minister of Commerce Minister of Communications Minister for Information Technology Minister for the Environment Minister for Biosecurity Minister of Broadcasting Minister of Transport Minister of Housing Minister of Pacific Island Affairs Minister of Women's Affairs Minister of Youth Affairs Minister of Statistics

Central agencies and reform management

The central agencies in New Zealand have been traditionally very powerful. The 1984 government had a reformist Finance Minister who was strongly supported by the Treasury and a reformist Minister of State Services who was supported by the State Services Commission. The Treasury, with intellectual and political power and high capacity, became a powerful and competent reform agency. The politicians, sup[ported by these central agencies, were able to have an impact on a simple and relatively small government, and a tractable and homogenous public administration.

Politicization

As noted, even the most senior officials have traditionally been appointed on merit and heads of public sector agencies report to ministers. In the case of State owned enterprises, boards reported to two shareholding ministers, the Minister of State Owned Enterprises (SOEs) and the Minister of Finance. Crown entities with boards reported to their responsible minister. Formal reporting and audit requirements were detailed in the Public Finance Act 1989, the State Owned Enterprise Act 1986 and the Fiscal Responsibility Act 1994.

Against this context of minimal patronage, the reforms have further increased depoliticization through reducing direct political interference in program delivery. The process of specifying what outputs and other interventions will be undertaken to meet government goals, what this will cost, transparent reporting on performance, and the contracting process and use of service agreements to record expectations, makes the choice of service delivery arrangements a more rational efficiency question. Clear roles and responsibilities for ministers, CEOs and boards also contribute to the low politicization. Clear legislative provisions cover ministerial powers of direction for Crown entities and role with SOEs.

A **strong audit function**, with annual audits of government accounts and of the service delivery and financial statements of all government entities, and wide access to information, also act as deterrent on poor practices. Opposition parties make extensive use of these facilities to probe government decision making processes.

Reform activities

<u>Summary</u>

Distinctively, reforms in New Zealand were driven by four principles (New Zealand Treasury 1987, p.55):

1. Clarity in objectives, roles, responsibilities, and avoidance of conflicting objectives.
2. Freedom to manage - managers need to be able to make effective resource allocation decisions not hampered by inappropriate input controls.
3. Effective assessment of performance and adequate information flows to assess performance.
4. Accountability - incentives and sanctions must be in place to modify behavior and managers must be accountable for the decisions they make.

All of these principles can be found in all elements of the reforms, but the developments in accountability were perhaps the most dramatic. The system of accountability introduced in 1988 struck a new deal for all chief executives who received managerial freedoms in return for accountability for delivering results. Cabinet on the recommendation of the State Services Commissioner appoints CEOs. The State Services Commissioner manages employment conditions and performance reviews. The State Services Commissioner, under the State Sector Act, undertakes performance management of CEOs for ministries and departments. The key tool for this has been the CEO’s performance agreement with the minister, monitored by the Commissioner. The

Commissioner co-ordinates feedback from ministers, central agencies, self reports from CEOs and other information in the annual assessments of the CEOs of departments and ministries.

Accountability demanded clarity - and a distinction was drawn between purchase performance (supply of goods and services) and ownership performance (maintenance and development of capability, financial performance, risk management). Roles and responsibilities were also clarified. Ministers became purchasers of services on behalf of the government, rather than advocates for their departments or ministries at the cabinet table. Chief executives were responsible for the performance of their departments or ministries, rather than being administrators hampered by heavy central controls.

Accountability requirements were tailored to types of government entities. Three types of organizations were differentiated:

1. Core government - the departments and ministries;
2. State owned enterprises - commercial businesses where the government had little or no purchase interest; and
3. Crown entities - an eclectic collection of organizations that were neither core government agencies nor State owned enterprises.

Accountability is always against some pre-specified standard. **Clear ex ante specification of performance** was required at all levels including **appropriations linked to outputs**, **outputs linked to government goals**, and **CEO performance linked to the performance of their department or ministry**. For Crown entities, a Statement of Intent setting out expected service and financial performance and a purchase agreement formed the ex ante specification. For State owned enterprises, a Statement of Corporate Intent covering the scope of business and expected financial performance formed the ex ante specification.

Accountability also requires **certainty that information on which to judge performance will be forthcoming**. Improved information was generated for decision making at all levels and for accountability. Monitoring and reporting of performance was stepped up. This includes regular reporting and monitoring of finances by the Treasury, monitoring of performance against the purchase agreement by ministers or their agents, and monitoring of performance by select committees based on annual audited reports to parliament on service and financial performance. Government is also obliged to report on its financial performance against principles of fiscal responsibility.

It is important to keep the question of how market-like government has become in some perspective. There is **little contestability operating for ministry and department services**. Apart for the ministerial advice from their offices and special inquiries, ministers rarely go outside their ministries and departments for services.

The purchase agreements and CEO performance agreements function more as ways to clarify performance expectations than as formal contracts for services. Executive agencies (Crown entities) have a variety of arrangements depending on their structure (e.g., whether there is a board) and on their functions (e.g. some have a large degree of independence from government). If they supply outputs to government, they have an agreement with the appropriate minister.

The State Owned Enterprises Act requires the specification and pricing of goods or services which the government requires them to provide to any persons. This is usually minor as SOEs tend to supply to the public on a commercial basis.

The role of the market in the reform of government activities operated most strongly through the privatization of government activities in the 1980s and 1990s. Competition does not have a strong role in many of the remaining government activities apart from outsourcing and providing goods and services to government entities. The education and health sectors are dominated by public providers for core services. The 1996 health reforms anticipated greater competition but changes to the policy design, the domination of public sector monopolies and other issues confined competition to small areas such as residential care for the aged and some community health services.

Competition has a role in some smaller areas such as the Crown Research Institutes which compete for research funding.

Reforms to the organizational structure of government

Restructuring was undertaken including privatization of commercial functions, corporatization of other commercial functions not privatized, breaking up of conglomerate ministries with various permutations on the basic pattern of separating policy, funding, purchasing, provision, monitoring and audit.

Fiscal decentralization has been accompanied by the development of a monitoring role for the Treasury, which includes monthly monitoring of whole of government financial position. Large amount of service delivery moved out of conglomerate ministries into private sector or SOEs or Crown entities (e.g., schools and hospitals).

Cutting back the programs undertaken by government

The government of New Zealand now is responsible for dramatically less direct service delivery than in 1988. Privatization was in the first wave of reforms and extensive contracting out has followed.

Prior to the reforms, the government's trading activities were large in scale, accounting for about 12 per cent of GNP and 20% of investment (Spicer, Emanuel and Powell 1996, p.9). The government of 1984 moved rapidly to place businesses in the form of state owned enterprises. Many were privatized over the next decade. Many State owned enterprises were among the entities which were privatized, including Air New Zealand, Petrocorp, Postbank, Shipping Corporation, Government Supply Brokerage Corporation (NZ) Ltd, Maui/Synfuels, New Zealand Rail Ltd, Government Computing Services Ltd, Tourist Hotel Corporation of New Zealand Ltd, and Telecom Corporation.

Politics played a large part in decisions on what to privatize and when during the 1990's. By 2000, 18 state owned enterprises remained in existence. Many are small enterprises, with the larger ones being in the areas of electricity generation, grid transmission services, postal services, and television.

Civil service and personnel reforms

The reforms focused on changing the conditions of employees delivering government services to create more flexibility to appoint on merit and reward performance. Many employees were moved to executive agencies and state owned enterprises, and in consequence had wages that compared to the private sector, but much less job security Market forces drove rightsizing in the corporatized and privatized functions.

The net effect was that employment in public service declined between 1988 and 1994 from 88,000 to 37,000. In consequence there were some difficult industrial relations.

Three key pieces of legislation underpinned the civil service and personnel reforms. The State Sector Act 1988 empowered CEOs. The State Services Commissioner became adviser on personnel rather than a central employer. CEOs received full discretion for human resource management within their agencies. This represented a remarkable change and the consequence is that New Zealand is one of the very few OECD countries that does not have a legally defined group of staff as the civil service, relying on the general labor laws to regulate public sector employment (World Bank 2001).

The Public Finance Act of 1989 introduced accruals accounting, a strong focus on outputs and outcomes, rather than inputs and activities.

The Employment Contracts Act 1991 increased flexibility to tailor contracts to individuals, and applied to private and public sector employees.

Pay policy has also been radically reformed. The Higher Salaries Commission sets pay levels for specified positions such as parliamentary officers and judges. The State Services Commissioner sets pay levels for CEOs on approval of ministers. CEOs set pay levels for staff. The number of staff receiving salaries of over $100,000 is reported in annual reports and this creates pressure to keep pay down. There is intense media scrutiny of public sector pay levels.

However, since CEO pay levels are not benchmarked to private sector, the pool of applicants can be lower than ideal. The original intention was to have the public and private sector pays levels more comparable. State owned enterprises tend to have higher pay levels then core government sector as they compete more in the private sector for staff.

In May, 1990, the State Services Commission issued a "Public Service Code of Conduct" The State Service's Code of Conduct established three principles of conduct which all public servants are expected to observe:

1. Employees should fulfill their lawful obligation to government with professionalism and integrity;
2. Employees should perform their official duties honestly, faithfully and efficiently respecting the rights of the public and their colleagues; and
3. Employees should not bring their employer into disrepute through their private activities.

Each public servant is expected to have read and understood its contents.

Provision was made in the State Sector Act 1988 for the creation of a **senior executive service**. Individuals would be designated members, transferred around ministries and departments and trained for senior management positions. This **has not been a success**. It has not been supported by CEOs or actively promoted by the State Services Commission. CEOs expressed dissatisfaction with investing in people they lost to the organization. Although this is a narrow and shortsighted view, it is a powerful one.

Budget process changes

The reforms introduced **output budgeting**; **accrual accounting**; and **devolved financial management** with **financial and service performance reporting**, and **auditing of finances and of service performance**. These requirements are set out in the Public Finance Act 1989. The transition to this system was staged but very rapid and was mostly in place by 1990. Over time the quality of the specification and reporting has been refined, although there is room for improvement in areas such as:

- Better specification by government of their desired outcomes;
- Better output specification possible including better costing; and
- Better explanation and analysis to support the linkages between outputs to outcomes and the linkage of other interventions to outcomes. Explanations are required in the budget documents but these are sometimes statements of assertion.

The Fiscal Responsibility Act (1994) law sets out requirements for reporting and monitoring of fiscal and economic policy by specifying particular reports which must be provided to the Parliament over the budget cycle. The Act requires specific fiscal indicators to be reported and forecast over a three-year planning period and to be published and updated at regular intervals.

A budget policy statement must be published no later than 31 March each year. (The fiscal year begins on 1 July). This sets out:

- The government's long-term fiscal objectives, in particular with regard to operating expenses, revenues, deficits and the levels of government debt and net worth (the net equity on the government's consolidated balance sheet).
- The government’s explicit intentions for the same fiscal aggregates for the budget year and the following two financial years.
- The government’s broad strategic priorities for the coming budget.

- The government’s assessment of the consistency of its fiscal intentions and long-term fiscal objectives with the principles of responsible fiscal management and previous budget policy statements. These principles are:
    1. The government must run operating surpluses until debt falls to sustainable levels
    2. Once sustainable debt levels had been reached the government must run zero operating balances over time
    3. The net worth of the government must be sufficient to buffer adverse circumstances over time
    4. The government must manage fiscal risks prudently
    5. There must be predictability and stability in tax rates over time.

The Act also stipulates that the Treasury prepares economic and fiscal updates at specified times:

- When the budget is presented;
- In December each year;
- Four to six weeks before the day of each general election; and
- At the time that the supplementary estimates for appropriation are presented to the Parliament.

A fiscal strategy report must be tabled with the budget and include:

- Comparison of the fiscal forecasts in the economic and fiscal updates with the government's objectives as set out earlier in the budget policy statement;
- Fiscal outlooks with projections of trends covering at least the next ten years; and
- Comparisons of progress against the fiscal objectives set out in the budget policy statement.

Inconsistencies between the budget policy statement and/or the fiscal strategy report and the immediately preceding statement or report, must be explained and justified by the government.

Ministries and departments have purchase agreements with the minister in charge of the Vote they receive funds from. These agreements set out the outputs to be provided and the specifications for those outputs including quality and cost. CEOs are additionally accountable for performance on these agreements through the performance agreement they have with the minister responsible for their ministry or department.

E-government

Government in May 2000 approved an Electronic government vision statement. The aim is for citizens to be able to access government information and services, and participate in democratic processes, electronically.

The government is beginning to publish cabinet papers on its website, and almost all government entities have websites. Many set out what is being consulted on and provide for citizen input. Some provide access to services through the site such as the Companies Office, which permits rapid transactions e.g., to search names and register companies.

Reform outcomes

The impact of the reforms is at several levels.

The fiscal impact has been dramatic. Following the reforms, **the government moved from a severe fiscal crisis, to attain a positive net worth in less than four years**. Large increases were avoided in the public sector wage bill. The government has been running a surplus on both cash and accrual bases. While the system helped politicians achieve their fiscal goals, it requires political will and supporting policies to maintain a favorable fiscal position. CEOs treat the parliamentary appropriations as "electric fences" and breaches are extremely rare.

In the civil service, the results have been significant although the impact on outputs is less obvious. Performance based pay is widely used, but the CEOs of ministries and departments are still predominantly drawn from the public sector. There is an increased ability to appoint new people due to shorter contract terms but there are still problems with attracting a large body of high caliber candidates for these positions, as they are not as attractive as private sector positions to many people. There are some concerns over lack of attention to developing talent in senior management ranks within the public sector. SOE and Crown entity sectors appear to be able to attract qualified candidates, as the pay is higher.

As regards policy flexibility and responsiveness, Ministers have expressed satisfaction with the public management arrangements. Even the 1999 Labour/Alliance government which campaigned on making changes to the public sector has stated that it will not alter the fundamental building blocks of the State Services Act, SOE Act, Fiscal responsibility Act and Public Finance Act, although it has modified employment law to increase the potential role of trade unions.

Significant gains have been made in **accountability improvements** at the level of the whole of government and for each government agency. There is still room for further gains by making information more relevant to consumers and public. The financial systems in the departments and ministries are considered sound. An Audit Office report in 1997/98 indicated general satisfaction with the financial and service performance information, and the control systems. All 44 departments received unqualified audit reports.[vi] Reviews by consulting firms recorded satisfactory results for the quality of monthly financial reporting, purchasing practices, cash management, control policies for physical assets, and accuracy of output class descriptions, although there were concerns about information at a lower level including costing information for management purposes.[vii]

Budget requirements are integrated into the purchase agreements which record what ministries and department will provide for the money expended. The CEO performance agreements include a requirement to deliver on the purchase agreements thereby linking the budget requirements into the CEO performance requirements. **Transparent specification of organizational performance ex ante** and **reporting on achievements ex post** with **comprehensive auditing requirements** provides the foundation for chief executives to link their accountabilities to ministers to the performance management arrangements in their organizations by focusing review and rewards on success in priority areas.

Transparency more generally has increased through **much broader availability of performance data**. This is widely used by parliamentary select committees, opposition parties, the media and interest groups. However, it is not always in a form that is particularly relevant and easily understood by consumers and the public.

Ministers are better informed. The output basis for information is far superior to input information. Ministers are better positioned for making decisions on funding. Government organizations are more able to assess impact of outputs and other interventions on outcomes but there is still room for much gain in this developing area of public sector management.

Efficiency gains in the departments and ministries have been noted in a recent OECD report. "The core public sector has been reduced substantially in terms of both its share of expenditures and employment. Given that higher levels of outputs have been produced with lower levels of inputs, productivity has increased, costs have come under better control due to accounting changes and many departments have attained departmental surpluses".[viii] A review by Allan Schick in 1996 also indicated efficiency gains (Schick 1996) although Schick suggested some areas requiring attention.[ix]

After reviewing several reports on departmental efficiency, Petrie and Webber concluded that there is "a wide consensus that the reforms have resulted in an improvement in the efficiency of the core public sector…" (Petrie and Webber 2001, p.28).

There have however been no comprehensive studies of efficiency gains across a wide selection of departments and ministries, so it is not possible to quantify the level of gains.[x] However, capital is used more efficiently because of the imposition of a capital charge. A 1993 Price Waterhouse survey of ten departments concluded: "there are sufficient examples of the way in which the charge has influenced behavior to state unequivocally that the concept has been successful."[xi] Careful investment approaches to capital developments are encouraged by the practice of producing business cases that are scrutinized by the Treasury and incorporated into the annual budgeting process.

Operational efficiency has also improved significantly in privatized and corporatized entities.[xii] There have been few comprehensive studies of efficiency in Crown entities, despite about one third of the government's budget being spent by these organizations.[xiii] In a comprehensive study of performance before and after corporatization, (Spicer, Emanuel et al. 1996, p.171) found increased levels of operational efficiency as measured by sales/assets and other output input ratios, increased levels of profitability, and high performance compared to listed public companies or companies in the same industries.

The study noted that deregulation as well as improved corporate governance contributed to the gains.

Some figures indicate the scale of change in the state electricity and coal industries: Electricity Corporation of NZ's return on assets moved from around 13% 1980-1985 to 20% 1988-1990. GWh of electricity sold per employee moved from around 3-4% in 1980-1987 to 7% by 1990. There were 6000 employees in 1987 and only 3913 by 1990. Profitability increased at the same time as it reduced the average sales price per kWh. In real terms price per kWh fell from 4.90c in 1988 the first year of corporatization to 4.70c in 1990.

Coal Corporation increased coal production per employee from the end of State coal era, with a production rate of 820 tonnes per annum in 1987, to 2,482 tonnes per annum by 1991. Earnings before interest and tax were frequently in the negatives in the State Coal era, and as high as -$10M. By 1991, it was around $15M. Sales volumes remained steady and the real price of coal decreased from a high of $90 per tonne in the State coal era to around $50 per tonne in 1991. The gains in profitability were due to cost reductions.

Other examples are Telecom productivity rising 85%, prices dropping 20% and NZ Post productivity rising 120% with a turnaround from a loss of $38M to a profit of $43M. Rail moved from a $77M loss to a $41M profit with a drop in prices of 50% (Douglas 1993, p.181).

Across seven of the larger SOEs from 1988- 1992 revenue rose by 15.5% to $5.9B, after tax profits rose from $262M to $1023M, staff numbers fell from 67,600 in 1987 to 31,500 in 1992 and the dividend contribution to the State by 1991/92 was $700M (Douglas 1993, p.181).

Overall, the 1991 Government sponsored Steering Group review noted that: "The framework is sound and substantial benefits are being realized" (Steering Group 1991).

Some **fresh problems** have emerged however. Little attention was paid to the **arrangements for autonomous agencies** while the focus lay on attending to higher priority fiscal matters. Difficulties have emerged over time, including problems with the manner in which ministers interacted with these organizations, lack of clarity over their degree of autonomy, some financial issues and concerns over the expenditure of some entities, and poor use of the formal accountability documents. This has resulted in work to prepare a Crown Entities Act to set out roles, responsibilities and accountabilities more clearly.

The increased management autonomy has led to some instances of expenditure by government agencies that have attracted adverse political and public comment, such as spending on air travel, payouts to departing CEOs, and failed implementations of IT systems. These are not however widespread phenomena.

Some commentators and some politicians have expressed concerns about an **erosion of a public service ethos** and a **loss of continuity and institutional memory** (Schick 1996). There has also been some speculation that fragmentation may be undermining policy analysis, but this would need to be tested and considered against a counterfactual.

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i This has of course dramatically changed with the introduction of the MMP system in 1996.

ii See www.elections.govt.nz

iii See also www.parliament.govt.nz

iv For further information on local government in New Zealand, see: www.lgnz.co.nz

v Information taken from: www.executive.govt.nz/minister/index.htm

vi The Public Finance Act 1989 has more agencies defined as departments than the State Sector Act 1988 does. Not all 44 departments are under the influence of the State Services Commissioner. For example Police, Defence and the Parliamentary Services are not.

vii Reports conducted by consulting firms Coopers & Lybrand, Price Waterhouse Coopers and KPMG, cited in (Petrie and Webber 2001, p.12).

viii OECD, "Measuring Public Sector Productivity", PUMA/SBO (99) 6, paper prepared for the 20th annual meeting of senior budget officials, Paris, 3-4 June 1999, quoted in (Petrie and Webber 2001). Note that public service staff numbers fell from 67,600 in 1987 to 31,500 in 1992.

ix Schick's critique of the reforms has been analyzed at length in (Scott 2001)

x There have been studies of small numbers of departments, for example, a 1996 study by J. Brumby et al, quoted in (Petrie and Webber 2001) considered average unit cost series for core processes in four departments since 1989/90. One department (Valuation) had a fall in average unit costs of 10-20% in nominal terms from 1989/90 to 1994/95. Two other departments (Income Support and Immigration Service) showed strongly declining average unit costs with rising volumes. The Immigration Service accommodated a 25+% output increase over three years within a 2% increase in nominal expenditure. The Income Support Service increased the volume of applications it processed by 60% over two years with barely any increase in operating expenses. The fourth department (Justice) showed no evidence of productivity gains before or after the reforms. The sample size and the difficulty of isolating causes for changes in productivity make it impossible to draw generalizations from these studies.

xi Price Waterhouse, "Capital Charging Regime for Government Departments: Survey of Benefits and Current Issues", July 1993, cited in (Petrie and Webber 2001).

xii Across seven of the larger SOEs from 1988- 1992 revenue rose by 15.5% to $5.9B, after tax profits rose from $262M to $1023M and the dividend contribution to the State by 1991/92 was $700M. NZ Institute of Economic Research studies quoted in (Douglas 1993, p.181). See also (Spicer, Emanuel and Powell 1996).

xiii An exception is the pricing work on public hospitals using data envelopment analysis to plot a production frontier and provide information on relative efficiency for various services.