INTRODUCTION

New Zealand has earned international recognition for the scale and consistency of its state sector reforms. A consistent philosophical basis for the state sector's interventions in the economy and society has been maintained through almost ten years of change. This publication summarises the background to our reforms, the key principles on which they were based, and the shape of the new state sector. It concludes with discussion of the results and effects of New Zealand's reform programme.

The term *state sector* is used whenever a topic comprises government departments, Crown-owned entities and state-owned enterprises. The term *public sector* is applied when a broader concept incorporating the local government sector is applicable. The *public service* refers to the government departments and ministries in the core state sector defined by the State Sector Act 1988 and its subsequent amendments.

Background

Through the first half of this century some strong expectations formed about the role of the state in New Zealand. One of these was that the state should provide comprehensive education, health and social security systems, funded from its revenue. Another was that the state should protect the viability of key industries both to assure high levels of employment, and to maintain and increase volumes of the mainly agricultural exports upon which the country's economic well being depended. Together these expectations gave the state a high degree of involvement in New Zealanders' lives, and in the nation's industries and businesses. New Zealand was seen as a shining example of a successful welfare state.

The impact during the 1970s of Britain's entry into the European Community which removed the exclusive market we had enjoyed for many years and of the oil shocks were profound. For the next ten years or so governments sought to cushion these effects by intervening increasingly to maintain key industries and to absorb unemployment, while seeking means at the same time to reduce New Zealand's vulnerability to further external shocks. While successes were claimed in some directions, these strategies tended to further increase the dependence of many citizens and businesses on the state, and locked the Government into a cycle of borrowing to fund escalating annual fiscal deficits, with consequentially worrisome inflationary pressures. By the early 1980s our indebtedness was considerable and increasing apace. Neither the Government, the business sector nor the state sector were able to find alternative strategies to combat this trend. Concerns were gathering overseas with our international creditors as well as within New Zealand.

Many of the key ministers in the Government elected in mid-1984 were representative of the post-war generation. They tended to view New Zealand's future in less insular terms than some of their predecessors had done, and were also more sharply aware of and receptive to different philosophies in government and management.

These ministers took the view that the ideas, productive energies and confidence needed for New Zealand to make its way in the world and to overcome the problems associated with chronic debt would only emerge through exposure of all sectors of the economy to the forces of competition. The Government would therefore minimise its interventions, focusing instead on creating incentives and conditions to encourage these ideas and energies to spark and flourish in the community and business sector. It began with the removal of subsidies and other support mechanisms and the progressive dismantling of regulations and controls.

These were changes on an enormous scale – dynamic solutions for major problems. The Government saw the state sector, with its traditional focus on resource distribution, regulation and control, and with relatively little transparency in its processes and activities, not so much as a tool for reform, but as a significant part of the problem. It felt the state cost too much, contributed too little to wealth-generating production, and was a dead weight on our society.

The ministers of the Government elected in 1984 accordingly decided that the state sector should be exposed to the same sorts of market rigours that were beginning to reshape agriculture, manufacturing and business. The key overall concepts in the Government's approach to reform of the state sector were transparency and consistency, and it was the former which undoubtedly brought the most radical changes to the structures and systems of the state. Virtually all of the state's activities would become open and comprehensible, in the belief that this transparency would eliminate unnecessary functions and inefficient processes, and clarify accountabilities.

The Government elected in 1990 continued the broad thrust of its predecessor's approach to reform of the state sector, and also moved quickly into the social services area health, housing and social security. Initial boldness has been tempered in some areas, notably user-charging and aspects of income maintenance reform, but very substantial restructuring has been carried through nevertheless in housing and in health.

The key reform principles and legislation

The concepts of transparency and consistency translated into a set of organising principles for the reform process that can be summarised as follows:

- The state should not be involved in any activities that would be more efficiently and effectively performed by the community or by private businesses.

- Trading enterprises would operate most efficiently and effectively if structured along the lines of private sector businesses.

- Departments would operate most efficiently and effectively with clearly specified and non-conflicting functions, and particularly with policy and operations functions separated, and with commercial and non-commercial functions separated.

- Departmental managers would perform most effectively if made fully accountable for the efficient running of their organisations, with the minimum practicable central control of inputs.

- The costs of state activities should, as far as practicable, be fixed through real market factors: in other words, the quality, quantity and cost of products should be determined by the purchaser's requirements, rather than the producer's preferences.

These principles were reflected in three important pieces of legislation:

- *the State Owned Enterprises Act 1986* which provided the basis for converting the old trading departments and corporations into businesses along private sector lines;

- *the State Sector Act 1988* which made departmental chief executives fully accountable for managing their organisations efficiently and effectively, and changed the role of the State Services Commission from employer and manager of the public service to employer of chief executives and advisor to the Government about management of the state sector; and

- *the Public Finance Act 1989* which changed the basis of state sector financial management from a focus on inputs the costs of production, to focus on outputs the relevance and effectiveness of actual products, and on outcomes the overall results of these outputs from the Government's point of view.

All three Acts have been amended from time to time, and affected by other legislation, for example by the Treaty of Waitangi (State Enterprise) Act 1988, and the Employment Contracts Act 1991. Their original purposes remain the same, however, as the basis of the overall approach to management of the state sector.

The State Sector in 1984

The principal features of the state sector before the reforms began were:

- a number of large departments with competing policy advice/trading/ regulatory/service delivery functions;
- centralised management and direction by control departments' the Treasury (input and expenditure controls, and centralised asset and consumables purchasing) and the State Services Commission (human resource management, accommodation and computing controls);
- centralised employment of all public servants by the State Services Commission;
- cash-based accounting systems;
- numerous 'quasi-autonomous national government organisations' (QANGOs) funded mainly or wholly by government grants;
- a small number of 'government corporations' trading commercially but with key strategic decisions requiring the Government's involvement.

The Reform Process

The reform process had four main streams, as summarised in the following paragraphs.

Structural Reform

Much of the major structural reform was undertaken in the first three or four years, when long-established and, in our terms, quite large departments, such as the Ministry of Energy, the Ministry of Works and Development, the Forest Service and the Post Office, were abolished and most of their functions assumed by 'state-owned enterprises' operating commercially under boards of directors. Many of these enterprises have subsequently been sold, in some cases to off-shore interests. Most of the remaining 14 enterprises are viewed as potentially marketable.

The state has now withdrawn almost entirely from direct involvement in trading enterprises.

Public Service Departmental Restructuring

Departmental restructuring began in 1985, to rationalise the functions and shape of the core public service, particularly by separating policy advice functions from service delivery and moving much of this servicing to a new tier of non-departmental agencies now known as 'Crown entities'. While most of this was completed by 1990, restructuring continued in key areas including education, science, transport and social welfare, and is still in progress in a few areas.

Education and Health Restructuring

In 1988 the Government began a major restructuring of administration in the education sector, beginning with the schools system. Local education boards were abolished and their functions transferred to elected boards of trustees for each institution. The Department of Education was replaced by new core public service agencies and Crown entities. Approaches began towards improvement of accountability and performance in the tertiary education sector.

Local partly elected funder/provider health authorities have been replaced by appointed regional health authorities with funding responsibilities, and Crown health enterprises operating commercially as service providers.

Reform of Management Systems

Systems reform to improve accountability and performance in the core public service and the wider state sector began in 1988 when chief executives became individually accountable to the ministers responsible for their departments, ending 75 years of centralised control of the public service. The role of the State Services Commission changed from employer of all public servants to employer of the chief executives. The chief executives were placed on formal performance-related limited term contracts.

This was followed by a series of financial management and accounting reforms designed to introduce as many of the disciplines of the commercial operating environment as practicable to the state sector. In particular this was through the formal purchasing by ministers of the outputs of departments, at specified standards of quantity, quality, timeliness and cost, through accrual accounting, and through capital charging. The apex of these financial and accounting reforms is the production of a rational set of national accounts – something we understand to be unique.

The key processes and instruments of the reformed accountability and financial management system are now firmly established. Modifications and refinements continue to be made year by year to improve the relevance and utility of these mechanisms and this will continue. Changes in political priorities and circumstances, and developments in technology and in the wider operating environment, will mean that we will probably never again have entirely settled structures and systems.

The new State Sector

The Public Service

Many changes have been made to the departments of the public service over the last eight years. When the reforms began there were only two departments with fewer than 100 staff; now there are eleven of that size. Ten years ago the public service was dominated by a number of large departments, including Works and Development, the Forest Service, Energy, Education, the Housing Corporation, Transport, Inland Revenue, Social Welfare and Justice. Now half of the public service is employed in just the last three. When the reform process began, nearly 88,000 people worked in the departments of the public service; in 1993 the figure is just over 36,000. The functions and form of the public service are areas of continuous review and development.

Today the public service (or 'core public service' as it is often informally termed to distinguish it from Crown entities and State-Owned Enterprises) is characterised by relatively small departments with quite sharply defined policy advice, service delivery, regulatory and sectoral funding functions. However, some departments, including Inland Revenue and Social Welfare, continue to perform combinations of functions. The reform process has moved steadily towards definition of a 'core public service': a set of departments sufficient to carry out those functions which for fundamental reasons cannot be corporatised or purchased from other Crown entities or the private sector.

Crown Entities

The Crown Entities sector covers organisations which were previously known as "quangos" and/or "Crown agencies". The term "Crown Entities" is used to describe agencies which are owned by the Crown and/or provide goods and services by or on behalf of core agencies, but may be legally separate and established under separate enabling legislation. The Crown entity sector encompasses organisations which are neither core departments and/or state-owned enterprises.

The Public Finance Act 1989 provided a statutory framework for enhancing the financial management and accountability reporting of Crown entities. A subsequent amendment to the Public Finance Act in 1992 identified Crown entities by listing them in the fourth schedule, and also as entities which were subject to varying levels of control by Crown organisations. Another amendment in 1994 further enveloped agencies of the Crown which had control over fifty per cent of voting rights attached to equity share capital of a company (e.g. Auckland International Airports Ltd.), half or more of issues shares in a company and where control could be exercised by virute of holding maximum votes.

Functions embodied in Crown entities vary from regulatory and purchasing, to service delivery and policy advice. The formation of some entities has resulted from restructuring activity within the core departmental sector. Restructuring of the education sector in 1989 subsequently placed evaluation and delivery functions in five new Crown entities. More recently, significant activity in the health sector has established four Regional Health Authorities and Crown Health Enterprises (hospitals and medical facilities) within the Crown entity sector.

The reasons for establishing Crown entities are diverse, ranging from the need for politically independent advice (e.g. Law Commission), encouraging more competition in service delivery/policy advice (e.g. Crown Health Authorities), to meeting short-term purposes (e.g. 1993 Suffrage Centennial Year Trust).

The accountability and reporting requirements, governance and organisational structures, as a result, are also diverse. Some are governed by boards of parliamentary selected directors, to whom Chief Executives report, who are then accountable directly to ministers. Most Crown entities are required to produce statements of intent and annual reports which are tabled in Parliament. These statements may specify objectives, performance targets and measures, accounting practices and other performance and accountability provisions. Responsibility for monitoring the performance of Crown entities is held by central agencies, Crown Company Monitoring and Advisory Unit (CCMAU) and some departments.

State-Owned Enterprises

The 'original' State enterprises in 1986 were:

- Air New Zealand
- New Zealand Railways
- The Petroleum Corporation
- The Tourist Hotel Corporation
- The Shipping Corporation

These were added to by nine new state enterprises created through the restructuring of the state sector:

- The Airways Corporation
- The Coal Corporation
- The Electricity Corporation
- Government Property Services
- The Land Corporation
- The Forestry Corporation
- New Zealand Post
- The Post Office Bank
- Telecom

Since 1986 there have been numerous changes to the First Schedule of the State Owned Enterprises Act, as new state enterprises have been added and as others have been sold. All of the original five have been sold, along with the Post Office Bank and Telecom, while the Forestry Corporation is also substantially privately owned.

The development and progress of the State-Owned Enterprises have been attended by some controversy surrounding the balance between social responsibilities and bottom-line commercial performance, the Crown's responsibilities under the Treaty of Waitangi, accountability to ministers and Parliament, and their market value on sale.

The Central Agencies

While there is no formal precedence or hierarchy amongst the 36 departments of the public service, the Department of the Prime Minister and Cabinet, the Treasury and the State Services Commission operate, individually and collectively, as key advisers to the Government and co-ordinators of its business. They are known, informally, as the 'central agencies', while the others are 'line departments'. Together these three departments perform the functions of a corporate office for the Government. Their role is to be distinguished from that of the Controller and Auditor General, whose responsibility is to provide Parliament with independent assurance about the activities of the Executive.

The State Services Commissioner is regarded as the *de facto* head of the public service. This is reinforced by the fact that the Commissioner appoints departmental chief executives, and alone can dismiss them.

Before the changes brought about by the State Sector Act, the Treasury and the Commission were known as 'control agencies'. The change is significant: their function is no longer to control inputs to departmental activities, but rather, along with the Department of the Prime Minister and Cabinet, to co-ordinate policy and monitor performance.

The Department of the Prime Minister and Cabinet has an interest in any matter that is likely to carry implications for the Government as a whole. It advises the Prime Minister about general policy and constitutional matters and co-ordinates policy work in the state sector. The Department also incorporates the Cabinet Office, which provides constitutional advice, supports the Government in managing its business agenda, and keeps the official records of the Government.

The Treasury advises the Government about economic and financial matters, and especially the development and management of its Budget, and has interests in all issues that have expenditure and revenue implications, short- and long-term. These functions give it a powerful role in all aspects of policy development and management.

The Commission advises the Government about structural design, machinery of government, management of change, collective management standards and the co-ordination of the performance management system in the state sector.

Representatives of these three departments are available to advise Ministers at Cabinet Committees. Cabinet Office staff are present at all Cabinet Committee meetings. Advisors from any or all of the three 'central agencies' may also sit in on some of these, at a Committee's invitation.

Central agency representatives are present in key inter-departmental committees. They frequently take convening and co-ordinating roles, the Department of the Prime Minister and Cabinet especially. The heads of the three central agencies have been included as permanent officials in meetings of the Cabinet Strategy Committee, as a focus for policy co-ordination within the bureaucracy. Co-ordination has always been important, but has become particularly critical since the scale and volume of the Government's reform agenda have grown, and since the state sector reforms have both increased the number of policy agencies, and made chief executives directly responsible to their ministers.

The State Services Commissioner

The State Sector Act 1988 provides for the positions of State Services Commissioner and Deputy State Services Commissioner, and for a department known as the State Services Commission. (The organisation has existed, first as the Public Service Commission and later as the State Services Commission, since 1912.)

The State Services Commissioner is appointed by the Governor-General in Council on the recommendation of the Prime Minister. The Commissioner is appointed for a term of up to five years, and is eligible for reappointment.

The Commissioner has a dual role as the chief executive of the State Services Commission, and as a statutory officer with a duty to act independently in matters relating to decisions about individual employees, and in the appointment and employment of departmental chief executives.

While there is no formally designated 'head of the New Zealand Public Service', the role of employer of all departmental chief executives means that the Commissioner for all intents and purposes fulfils this function, as has been discussed. Ministers view the Commissioner as the head of the service and look to the Commissioner for advice and services consistent with such a role.

The State Services Commissioner's principal functions relate to the public service:

- reviewing the allocation of functions between departments, the need for new departments, the need for amalgamations or abolition of departments, and the effectiveness of co-ordination between departments;

- reviewing the performance of departments and chief executives;

- appointing chief executives of departments and managing their employment and performance;

- managing the Senior Executive Service, in association with chief executives;

- negotiating collective employment contracts for public servants;

- promoting effective personnel policies for the public service, including Equal Employment Opportunities policies and programmes;

- advising on the training and career development of public servants;

- providing advice on management systems, structures, and organisations.

The Prime Minister may also direct the Commissioner to carry out any of these functions in relation to the wider state sector.

The Commissioner has varying degrees of involvement in determining the conditions of employment contained in collective employment contracts in the wider state sector. The Commissioner's responsibilities in each case are established by legislation and range from a direct involvement, for example in the education sector, through to a consultative approach, as for example in the health sector and in many Crown entities. The Commissioner has a similar range of statutory responsibilities in relation to the conditions of employment of chief executives of organisations in the state sector.

The State Services Commissioner also fixes remuneration for members of most statutory bodies, and sets rates of travelling allowances and expenses for members of statutory bodies and local authorities.

The Commission's functions follow those of the Commissioner as outlined above.

Reflections on the State Sector Reforms

The Present Position

The point has been reached in New Zealand where it is possible to begin making some objective assessments of the reforms as a whole. The 1993 General Election and Referendum on the electoral system indicated that New Zealanders were close to, or perhaps had reached their tolerance for large scale reform, for the time being at least.

The Government clearly cannot, however, stop exactly where it is; some further changes are bound to be necessary, not only to round off the existing programme but also because the lesson has been learned that New Zealand cannot be insulated from a dynamic and rapidly developing world economy and community. In order to plan effectively for the future we have to understand what in our almost ten years of reform has worked well and what has not, and why. We also need to accept that some initial expectations may have been unrealistic and to think about why that may have been so, and to recognise any significant unplanned results and outcomes.

In briefing papers for the new Minister of State Services appointed following the 1993 General Election, the State Services Commissioner suggested that it was time to revisit the key principles upon which the reforms have been based, to test the effectiveness of their translation into practice. Questions proposed included:

- Is the separation of policy and operational functions achieving the intended results?
- Is the public investment and public interest in non-core state sector agencies adequately protected?
- Does the new public service management system achieve an appropriate balance between collective and sectoral interests?
- Does the output purchasing regime assist ministers to take better decisions?
- Have the reforms improved the capacity of the public service to help ministers deal effectively with hard, long-term social policy problems?

While the weight of anecdotal evidence tends to be positive in relation to most of these matters – and there are undoubtedly other important questions – a little time and effort will be needed to produce objective analyses of the kind required to inform planning and further developmental work. The State Services Commission has begun some of this analysis.

Key Areas of Success

In advance of such detailed studies it can, however, be claimed that three particularly key aspects of the reforms have been extremely successful. Transparency in the activities and processes of the state, the liberation of managers from central input controls, (on accommodation, equipment, vehicles, consumables and the like) and the new financial management and accounting systems are revolutionising the ways in which departments and officials work. Unnecessary and redundant activities and wasteful processes are being exposed and eliminated, and the efficiency with which the service does its business is improving as departments progressively become more skilled in specifying and pricing outputs. The new accrual accounting and financial management systems give much better appreciations of the financial positions of departments, and are part of the overall regime that leads to a rational set of government accounts.

Managers have relished the opportunities presented by devolution and some, at least, of that flourishing of ideas and energies sought by the Government when it began this process of reform, has occurred in the state sector. The public service has shed the stodgy, unadventurous and in some respects secretive character it had for many years.

The reform process has, as noted earlier, progressed steadily towards definition of a new public service comprising a set of departments sufficient to carry out core functions which, for fundamental constitutional or practical reasons, cannot be corporatised, or purchased from Crown entities, or purchased from the private sector. We are well beyond the half-way point in this transition, but in terms of departmental restructuring – functions, structures and numbers – there are still some significant tasks left to tackle.

The Wider Impact in New Zealand

Together the major corporatisations, structural reforms in education and health, and departmental restructurings since 1984 have affected the lives and careers of thousands of employees. In many cases, staff surplus from shrinking or abolished organisations were quickly hired by the newly created agencies and enterprises that sprang up, while others were able to establish their own businesses as contractors to the new organisations. However, the reforms did bring an end to state sector careers for a very significant number of people, and dramatically changed a number of rural communities that had previously depended upon a single state industry. There is no doubt that the scale and significance of these impacts were underestimated.

The reform process has also sharpened our focus on the relationship, founded on the Treaty of Waitangi of 1840, between the Government and the indigenous Maori people of New Zealand. Maori people undoubtedly experienced quite disproportionately the negative effects first of stagnation of the economy in the 1970s and early 1980s, and then the radical economic and social restructurings that followed. The Treaty, which for many years appeared to be largely symbolic –

from the Government's perspective at least – has now become a dynamic instrument for definition and settlement of longstanding land and other grievances. Just as importantly perhaps, the Treaty is now a firmly fixed reference point in the Government's wider policy development and legislation. The State Sector Act for example, specifically requires departmental chief executives to recognise, in their personnel policies, the need for greater involvement of Maori people in the Public Service. The Government's general policy development and operational activities now incorporate Maori perspectives far more consistently than they did twenty and even ten years ago.

The reforms in an international context

These reforms were devised, as noted earlier, as part of a comprehensive and quite radical response to New Zealand's increasingly unsteady economic circumstances in the mid-1980s. The Government elected at that stage was seeking, in effect, to 'reform New Zealand' – to make its people, industries and institutions much more independent, and much more willing and able to compete in the world.

The Government's approach to the state sector followed the pattern of its wider objectives, and it was therefore able to begin with a set of clearly articulated principles. This firm foundation in principle has, more than anything, assured momentum and a high degree of consistency over a long period.

New Zealand's small population – 3.5 million – its geographical compactness, good levels of basic education, and well developed internal communications systems combined to give the Government the confidence it needed to proceed with a radical programme, and allowed it to feel justified in moving on a scale and at a pace that would inevitably affect the careers and lives of thousands of people.

Taken together these factors probably made New Zealand's overall approach to state sector reform unique. Other countries have undertaken very significant reforms of structures and/or systems over the last ten years but none has attempted anything of quite the comprehensiveness or on the scale that New Zealand has, and sustained it for as long.

Off-shore observers looking for models and ideas in New Zealand's experience – or perhaps looking for things to criticise – should always keep in mind where the Government started from and how broadly and how high our sights have been set. State sector reform in New Zealand has been part of a much wider endeavour to turn around a weak and over-protected economy, by changing the very character of the country.

Conclusions

The questions that inevitably arise are, of course, whether these endeavours have brought the results that were intended. Is New Zealand better off than it would have been if the state sector had not been reformed, or if a less radical course had been taken towards it? Have all the effort and dislocation been justified? Would things be done in the same way with the benefits of hindsight? What lessons have been learned? What else is still to be done? Is the New Zealand approach to state sector reform exportable?

As observed earlier, serious analysis is needed to enable us to judge the effectiveness of the new structures and systems that have been introduced. In the meantime, judgements must necessarily be at least partly subjective and partly based on the results so far.

Some relevant facts are:

- New Zealand's economy is now recovering strongly, and on a much more substantial basis than in the past;
- New Zealand's credit rating has been regraded upwards;
- inflation has been reduced to less than two per cent and with the economy now beginning to grow consistently for the first time in twenty years there are strengthening prospects that we will soon be able to make inroads into our debt;
- employment has been growing steadily since December 1991.

There are, as in many other countries, some difficult problems to work through in employment and social welfare but these can now be tackled within the framework of a more sturdy and growing economy.

In the 1993 World Competitiveness Report, New Zealand's overall ranking moved from 15th to 8th amongst OECD countries. The report ranked New Zealand first in quality of government, while ratings in domestic and economic strength moved from 21st to 7th, in management from 18th to 8th, and in infrastructure from 13th to sixth. The Report rated business community optimism in New Zealand second in the world – a very significant turnaround after most of the last twenty years in the doldrums.

A number of other international commentators have viewed New Zealand's reforms positively, including Graham Mather of the European Policy Forum, who wrote last year about lessons from New Zealand's economic and policy reforms. The

Economist has followed developments over the last ten years with a view that has changed, as a New Zealand commentator put it recently, from an 'imperfectly concealed yawn to active interest and a mild degree of concern' – concern arising from the fact that reforms of the kind it had long advocated were actually being put to the test. As its concerns have eased, The Economist has gone so far as to recommend aspects of New Zealand's reforms to other governments.

It is generally accepted that New Zealand's economic restructuring and subsequent recovery could not have been accomplished if the state sector had remained in its previous form. The state sector quite clearly did cost too much, had an appetite for more and more resources, and undoubtedly was insufficiently responsive to the rapidly changing domestic and international environments.

The former major state trading enterprises – electricity generation, postal services, telecommunications services, railways, coal mining, forestry, banking – are no longer direct financial liabilities. Their operating efficiency has improved, in some cases dramatically. Telecom, now marketing its services aggressively, although not yet in fully competitive circumstances, can respond to new customers immediately, in contrast to routine delays of six weeks or longer for straightforward telephone connections ten years ago.

The now much smaller core public service is also beginning to show clear improvements in operating efficiency and in responsiveness to clients. It costs the Government less than it did ten years ago and it is no longer a regulatory impediment to ideas and productive energies in the wider economy and community.

All of this indicates that New Zealand is very clearly better off for having comprehensively reformed its state sector. Could it, however, have taken a less radical course towards these reforms?

The Government certainly drove the reform programme at a very hard pace, especially during the first five years, in the belief that 'quantum leaps' were needed to ensure key objectives were in fact reached. The approach worked, but there were some significant consequential costs and impacts – the effects on individuals and communities have been mentioned. The driving tempo meant that problems, which emerged continuously, had to be dealt with 'on the run', sometimes by higher than planned spending, for example, on redundancies and retraining of surplus staff. Mistakes were undoubtedly made. There is, however, little doubt the comprehensive changes that have been made would not have been achieved if a more gently paced approach had been taken. The process would very probably have bogged down in the first set of significant problems encountered.

The New Zealand experience suggests there are seven key elements to a successful reform process. They are:

- unflinching political determination;
- very clear objectives, agreed at the highest levels, and based on an intelligent appreciation of the community's tolerances;
- a set of comprehensive and well-integrated basic principles, agreed at the highest levels;
- sound legal architecture that re-defines the rules outright;
- a demanding but realistic timetable;
- a core of unified, highly motivated, experienced and imaginative senior public servants, provided with sufficient resources and discretion to manage implementation; and
- very effective information and public relations systems.

These characterised all of the most successful episodes in the reform programme, including the introduction of the Goods and Services Tax, the initial corporatisation of public service trading departments, decentralisation of the core public service, and the state sector financial management and accounting reforms. Needless to say those episodes where one or more of these elements were not present have proved much more difficult to manage, both politically and administratively, and have generally been significantly less successful in meeting their original objectives.

New Zealand is well beyond half-way towards its original overall reform objectives, but still has some significant matters to deal with. Just when the push is made into the last phase is, of course, a matter for the Government. Changes to the electoral system will almost certainly alter a number of priorities and objectives after the next General Election. In the meantime there is much for the public service to do in reviewing and refining the new systems and, particularly importantly, in ensuring that these continue to be as responsive as possible to the needs of both the politicians and the public. Great care will be needed to guard against circumstances where activities and processes begin to be shaped to meet the preferences and convenience of the bureaucrats themselves. That would put at risk a very critical part of what has been achieved.

Perhaps the most exportable aspect of New Zealand's reform programme is the practical experience that has accumulated about what has worked and what has not, and why – the lessons that have been learned. By and large, these lessons are summed up in the seven points set out above. It is fair to say that any proposed reform programme that includes all of these features will almost certainly succeed and that a programme that lacks any one of them will almost certainly not.

The picture presented here is of new state sector that is emerging from a long and comprehensive reform process in a shape that will enable it to be a positive force in New Zealand's economy and society. There is still much to be done, but that points to another significant lesson that has been learned – change is not an occasional or cyclical phenomenon: it is continuous and it is something which public administrators have to be able to manage extremely well.

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1994